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99th Congress } **HOUSE OF REPRESENTATIVES** { **Report**
2d Session } { **99-513**

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MILITARY RETIREMENT REFORM ACT OF 1986

April 8, 1986.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. Aspin, from the Committee on Armed Services, submitted the following

REPORT

[To accompany H.R. 4420]

[Including cost estimate of the Congressional Budget Office]

The Committee on Armed Services to whom was referred the bill (H.R. 4420) to amend title 10, United States Code, to revise the retirement system for new members of the uniformed services, and for other purposes, having considered the same, report favorably there on with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike all after the enacting clause and insert the following:

SECTION 1. SHORT TITLE; REFERENCES TO TITLE 10, UNITED STATES CODE; TABLE OF CONTENTS.

(a) **Short Title.**—This Act may be cited as the "Military Retirement Reform Act of 1986".

(b) **References to Title 10.**—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of title 10, United States Code.

(c) **Table of Contents.**—The table of contents for this Act is as follows:

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TITLE IV—FISCAL YEAR 1986 UNAUTHORIZED APPROPRIATIONS

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Sec. 402. Authorization of obligation for certain unauthorized appropriations.
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TITLE I—RETIREMENT PROGRAM CHANGES

SEC. 101. RETIRED PAY MULTIPLIER.

Chapter 71 (relating to computation of retired pay) is amended by adding at the end the following new section:

"§ 1409. Retired pay multiplier

"(a) RETIRED PAY MULTIPLIER FOR REGULAR-SERVICE NONDISABILITY RETIREMENT.—In computing—

"(1) the retired pay of a member who is a regular-service nondisability retiree; or

"(2) the retainer pay of a member who is transferred to the Fleet Reserve or the Fleet Marine Corps Reserve,

the retired pay multiplier or retainer pay multiplier is the percentage determined under subsection (b).

"(b) PERCENTAGE.—

"(1) GENERAL RULE.—Subject to paragraphs (2) and (3), the percentage to be used under subsection (a) is the product (stated as a percentage) of—

"(A) 2½, and

"(B) the member's years of creditable service.

"(2) REDUCTION FOR RETIREMENT BY NEW-RETIREMENT MEMBERS WITH LESS THAN 30 YEARS OF SERVICE.—In the case of a member who first became a member of a uniformed service on or after the date of the enactment of the Military Retirement Reform Act of 1986 and who has less than 30 years of creditable service, the percentage determined under paragraph (1) shall be reduced by—

"(A) 1 percentage point for each full year that the member's years of creditable service are less than 30; and

"(B) 1/12 of 1 percentage point for each month (or fractional part thereof) by which the member's years of creditable service (after counting all full years of such service) are less than a full year.

"(3) 75 PERCENT LIMIT.—In the case of a member with more than 30 years of creditable service, the percentage to be used under subsection (a) is 75 percent.

"(c) DEFINITIONS.—In this section:

"(1) REGULAR-SERVICE NONDISABILITY RETIREE.— 'Regular-service nondisability retiree' means a member of a uniformed service who is retired as a member under any provision of law other than—

"(A) chapter 61 of this title (relating to retirement or separation for physical disability); or

"(B) chapter 67 of this title (relating to retirement for non-regular service).

"(2) YEARS OF CREDITABLE SERVICE.—'Years of creditable service' means the number of years of service creditable to a member in computing the member's retired or retainer pay (including 1/12 of a year for each full month of service that is in addition to the number of full years of service of the member).".

SEC. 102. RETIRED PAY BASE FOR COMPUTATION OF RETIRED PAY.

(a) TRANSFER OF SECTION 1406.—Section 1406 is transferred to the end of chapter 67, redesignated as section 1338, and amended—

(1) by designating the first sentence as subsection (a) and striking out "chapter 67 of this title" both places it appears therein and inserting in lieu thereof "this chapter"; and

(2) by designating the second sentence as subsection (b).

(b) CONSOLIDATION OF RETIRED PAY BASE STATUTES AND ESTABLISHMENT OF GRADUATED HIGH-PERIOD AVERAGE FOR NEW ENTRANTS.—Chapter 71 (relating to the computation of retired pay) is amended by striking out section 1407 and inserting in lieu thereof the following:

"§ 1406. Retired pay base for members who first became members before September 8, 1980

"(a) Use of Retired Pay Base in Computing Retired Pay.—

"(1) General rule.—The retired pay or retainer pay of any person entitled to that pay who first became a member of a uniformed service before September 8, 1980, is computed using the retired pay base or retainer pay base determined under this section.

"(2) Exception for recomputation.—Recomputation of retired or retainer pay to reflect later active duty is provided for under section 1402 of this title without reference to a retired pay base or retainer pay base.

"(b) Retirement Under Subtitle A.—

"(1) Disability retirement.—

"(A) In general.—In the case of a member of a uniformed service who is entitled to retired pay under chapter 61 of this title (relating to retirement or separation for physical disability), the retired pay base is the monthly basic pay of the grade—

"(i) to which the member is entitled under section 1372 of this title; or

"(ii) to which the member was entitled on the day before the member's retirement or placement on the temporary disability retired list,

whichever is higher.

"(B) Rate of basic pay to be used.—The rate of basic pay to be used under subparagraph (A) is the rate applicable to the grade determined under that subparagraph on the date of the member's retirement or the date when the member's name was placed on the temporary disability retired list, as the case may be.

"(2) Retirement for non-regular service.—In the case of a person who is entitled to retired pay under section 1331 of this title (relating to retired pay for non-regular service), the retired pay base is the monthly basic pay (computed at the rates applicable on the date when retired pay is granted) of the highest grade held satisfactorily by the person at any time in the armed forces.

"(3) Warrant officers.—In the case of a member who is retired under section 564, 1263, 1293, or 1305 of this title, the retired pay base is—

"(A) the monthly basic pay to which the member would have been entitled if he had served on active duty in his retired grade on the day before retirement; or

"(B) if the pay of that grade is less than the pay of any warrant officer grade satisfactorily held by the member on active duty, the monthly basic pay of that warrant officer grade.

"(4) Involuntary retirement of officers for service or age.—

"(A) General rule.—In the case of an officer who is retired under section 633, 634, 635, 636, or 1251 of this title, the retired pay base is the monthly basic pay (computed at the rates applicable on the date of retirement) of the officer's retired grade.

"(B) Special rule for certain permanent professors at the military and air force academies.—The retired pay base of an officer whose retired grade is determined under section 3962(b) or 8962(b) of this title shall be determined as if that section did not apply.

"(c) Voluntary Retirement for Members of the Army.—

"(1) In general.—In the case of a member whose retired pay is computed under section 3991 of this title or who is entitled to retired pay computed under section 3992 of this title, the retired pay base is determined in accordance with the following table.

"For a member entitled to retired pay under section	The retired pay base is:
3911 3918 3920 3924	Monthly basic pay of member's retired grade.[1]

"For a member entitled to retired pay under section:	The retired pay base is:
3914 3917	Monthly basic pay to which member was entitled on day before he retired.
3992	Monthly basic pay of grade to which member is advanced on retired list.

[1] For the purposes of this subsection, determine member's retired grade as if section 3962(b) did not apply.

"(2) RATE OF BASIC PAY TO BE USED.—The rate of basic pay to be used under paragraph (1) is the rate applicable on the date of the member's retirement.

"(d) RETIREMENT FOR MEMBERS OF THE NAVY AND MARINE CORPS.—In the case of a member whose retired pay is computed under section 6328 of this title, who is advanced on the retired list under section 6151 of this title, or who is entitled to retainer pay under section 6330 of this title, the retired pay base or retainer pay base is determined in accordance with the following table.

"For a member entitled to retired or retainer pay under section:	The retired pay base or retainer pay base is:
6323 6325(a) 6383	Basic pay of the grade in which the member retired.[1]
6325(b)	Basic pay of the grade the officer would hold if he had not received an appointment described in section 6325(b)
6326	Basic pay of the pay grade in which the member was serving on the day before retirement.
6330	Basic pay that the member received at the time of transfer to the Fleet Reserve or Fleet Marine Corps Reserve.
6151	Basic pay of the grade to which the member is advanced under section 6151.

[1] If the rate specified is less than the pay of any warrant officer grade satisfactorily held by the member on active duty, use the monthly basic pay of that warrant officer grade.

"(e) VOLUNTARY RETIREMENT FOR MEMBERS OF THE AIR FORCE.—

"(1) IN GENERAL.—In the case of a member whose retired pay is computed under section 8991 of this title or who is entitled to retired pay computed under section 8992 of this title, the retired pay base is determined in accordance with the following table.

"For a member entitled to retired pay under section:	The retired pay base is:
8911 8918 8920 8924	Monthly basic pay of member's retired grade.[1]
8914 8917	Monthly basic pay to which member was entitled on day before he retired.
8992	Monthly basic pay of grade to which member is advanced on retired list.

[1] For the purposes of this subsection, determine member's retired grade as if section 8962(b) did not apply.

"(2) RATE OF BASIC PAY TO BE USED.—The rate of basic pay to be used under paragraph (1) is the rate applicable on the date of the member's retirement.

"(f) COAST GUARD.—In the case of a member who is retired under any section of title 14, the member's retired pay is computed under section 423(a) of title 14 in the manner provided in that section.

"(g) COMMISSIONED CORPS OF NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION.—In the case of an officer whose retired pay is computed under section 16 of the Coast and Geodetic Survey Commissioned Officers' Act of 1948 (33 U.S.C. 853o), the retired pay base is the basic pay of the rank with which the officer retired.

"(h) Commissioned Corps of Public Health Service.—In the case of an officer who is retired under section 210(g) or 211(a) of the Public Health Service Act (42 U.S.C. 211(g), 212(a)), the retired pay base is determined as follows:

"(1) Mandatory retirement.—If the officer is retired under section 210(g) of such Act, the retired pay base is the basic pay of the permanent grade held by the officer at the time of retirement.

"(2) Voluntary retirement.—If the officer is retired under section 211(a) of such Act, the retired pay base is the basic pay of the highest grade held by the officer and in which, in the case of a temporary promotion to such grade, the officer has performed active duty for not less than six months.

"(i) Special Rule for Former Chiefs of Service and Senior Enlisted Members.—For the purposes of subsections (b) through (e):

"(1) Former chiefs of service.—

"(A) General rule.—In determining the rate of basic pay to apply in the determination of the retired pay base of an officer who served in a covered position, the highest rate of basic pay applicable to the officer while serving in that position shall be used, if that rate is higher than the rate otherwise authorized by this section.

"(B) Covered position defined.—In this paragraph, 'covered position' means any of the following:

"(i) Chairman of the Joint Chiefs of Staff.
"(ii) Chief of Staff of the Army.
"(iii) Chief of Naval Operations.
"(iv) Chief of Staff of the Air Force.
"(v) Commandant of the Marine Corps.
"(vi) Commandant of the Coast Guard.

"(2) Senior enlisted members.—

"(A) General rule.—In determining the rate of basic pay to apply in the determination of the retired pay base of an enlisted member who served in a covered position, the highest rate of basic pay applicable to the member while serving in that position shall be used, if that rate is higher than the rate otherwise authorized by this section.

"(B) Covered position defined.—In this paragraph, 'covered position' means any of the following:

"(i) Sergeant Major of the Army.
"(ii) Master Chief Petty Officer of the Navy.
"(iii) Chief Master Sergeant of the Air Force.
"(iv) Sergeant Major of the Marine Corps.
"(V) Master Chief Petty Officer of the Coast Guard.

"§ 1407. Retired pay base for members who first became members after September 7, 1980

"(a) Use of Retired Pay Base in Computing Retired Pay.—The retired pay or retainer pay of any person entitled to that pay who first became a member of a uniformed service after September 7, 1980, is computed using the retired pay base or retainer pay base determined under this section.

"(b) Graduated High-Period Average.—The retired pay base or retainer pay base of a member under this section is the member's high-period average determined under subsection (c).

"(c) Computation of High-Period Average.—

"(1) Formula.—For the purposes of this section, a member's high-period average is the amount equal to—

"(A) the total amount of monthly basic pay to which the member was entitled for the member's countable high-pay months, divided by

"(B) the number of such countable high-pay months.

"(2) Number of months to be used in computation.—

"(A) General rule.—Subject to subparagraph (B) and to subsection (e), the number of countable high-pay months of a member is 36.

"(B) Increase in number of countable months for new-retirement members with less than 30 years of service.—In the case of a new-retirement member who has less than 30 years of creditable service, the number of countable high-pay months shall be increased by one for each period of five months (including any portion thereof) that the member's years of creditable service are less than 30.

"(3) Countable high-pay months defined.—

"(A) General rule.—A member's countable high-pay months are those months (the number of which is determined under paragraph (2)) out of all the months of active duty served by the member as a member of a uniformed service for which the monthly basic pay to which the member was entitled was the highest.

"(B) Rule for non-regular service retirees.—In the case of a member who is entitled to retired pay under section 1204 or 1205 of this title or under chapter 67 of this title, a member's countable high-pay months are those months (the number of which is determined under paragraph (2) or subsection (e)) out of all the months the member was a member of a uniformed service before becoming entitled to retired pay for which the monthly basic pay to which the member would have been entitled had he served on active duty during those months was the highest.

"(d) Limitation for Enlisted Members Retiring with Less Than 30 Years' Service.—In the case of a member who is retired under section 3914 or 8914 of this title or who is transferred to the Fleet Reserve or Fleet Marine Corps Reserve under section 6330 of this title, the member's high-period average shall be computed using only rates of basic pay applicable to months of active duty of the member as an enlisted member.

"(e) Special Rules for Short-Term Disability Retirees.—

"(1) Members entitled to retired pay under section 1201 or 1202.—In the case of a member who—

"(A) is entitled to retired pay under section 1201 or 1202 of this title; and

"(B) served on active duty—

"(i) for less than 36 months, in the case of a member who is subject to this section but is not a new retirement member; or

"(ii) for less than 60 months, in the case of a new retirement member,

the number of the member's countable high-pay months (notwithstanding subsection (c)(2)) is the number of months (including any fraction thereof) that the member served on active duty.

"(2) Members entitled to retired pay under section 1204 or 1205.—In the case of a member who—

"(A) is entitled to retired pay under section 1204 or 1205 of this title; and

"(B) was a member of a uniformed service—

"(i) for less than 36 months, in the case of a member who is subject to this section but is not a new retirement member; or

"(ii) for less than 60 months, in the case of a new retirement member,

the number of the member's countable high-pay months (notwithstanding subsection (c)(2)) is the number of months (including any fraction thereof) that the member was such a member.

"(3) Maximum number of months for new retirement members.—In the case of a new retirement member who is entitled to retired pay under chapter 61 of this title (relating to retirement or separation for physical disability) and who was a member for more than 60 months before becoming entitled to such pay, the number of countable high-pay months may not exceed 60.

"(f) Special Rule for Members Retiring With Non-Regular Service.—

"(1) Disability retirement.—In the case of a member of a uniformed service who is entitled to retired pay under section 1204 or 1205 of this title (relating to members on active duty for 30 days or less), the high-period average is determined as if the member served on active duty and was entitled to basic pay for the member's countable high-pay months.

"(2) Chapter 67 retirement.—In the case of a person who is entitled to retired pay under section 1331 of this title (relating to retired pay for non-regular service), the person's high-period average is determined as if the person served on active duty and was entitled to basic pay for the person's countable high-pay months.

"(g) Definitions.—In this section:

"(1) Years of creditable service.—'Years of creditable service' means the number of years of service creditable to a member in computing the member's retired or retainer pay (including 1/12 of a year for each full month of service that is in addition to the number of full years of service of the member).

"(2) New-retirement member.—'New-retirement member' means a member of a uniformed service who first became a member of a uniformed service on or after the date of the enactment of the Military Retirement Reform Act of 1986.".

(c) Conforming Amendments.—

(1) Sections 5083 and 5201(c) are each amended by striking out the last sentence.

(2) Section 6325(c) is amended by striking out the second sentence.

SEC. 103. RULES OF CONSTRUCTION FOR PURPOSES OF COMPUTING RETIRED PAY.

Chapter 71 (relating to computation of retired pay) is amended by adding after section 1409 (as added by section 101) the following new sections:

"§ 1410. Rules of construction

"(a) CONSTRUCTION OF 'FIRST BECAME A MEMBER'.—For the purpose of this chapter and other provisions of law providing for computation of retired or retainer pay of members of the uniformed services, a person shall be considered to first become a member of a uniformed service on the first date the person is enlisted, inducted, or appointed in a uniformed service.

"(b) REFERENCES IN TABLES.—Section references in tables in this chapter are to sections of this title.

"§ 1411. Rounding to next lower dollar

"Amounts computed under this chapter, if not a multiple of $1, shall be rounded to the next lower multiple of $1.".

SEC. 104. YEARS OF SERVICE FOR COMPUTING RETIRED PAY.

Section 1405 (relating to determination of years of service for computation of retired pay) is amended—

(1) by inserting "(a) IN GENERAL.—" before "For the purposes of";

(2) by striking out "section 1401" and all that follows through "of this title" and inserting in lieu thereof "the computation of the years of service of a member of the armed forces under a provision of this title providing for such computation to be made under this section"; and

(3) by adding at the end the following:

"(b) FRACTIONAL YEARS OF SERVICE.—In determining a member's years of service under subsection (a)—

"(1) each full month of service that is in addition to the number of full years of service creditable to the member shall be credited as $\frac{1}{12}$ of a year; and

"(2) any remaining fractional part of a month shall be disregarded.".

TITLE II—COMPUTATION OF RETIRED PAY

SEC. 201. RETIRED PAY COMPUTED UNDER SUBTITLE A.

(a) DOPMA OFFICERS AND WARRANT OFFICERS.—Section 1401 (relating to computation of retired pay) is amended—

(1) by inserting "(a) DISABILITY, NON-REGULAR SERVICE, WARRANT OFFICER, AND DOPMA RETIREMENT.—" before "The monthly";

(2) by striking out the third, fourth, and fifth sentences;

(3) by striking out column 1 of the table and inserting in lieu thereof the following:

"Column 1
Take
Retired pay base as computed under section 1406(b)(1) or 1407.
Retired pay base as computed under section 1406(b)(1) or 1407.
Retired pay base as computed under section 1406(b)(2) or 1407.
Retired pay base as computed under section 1406(b)(3) or 1407.
Retired pay base as computed under section 1406(b)(4) or 1407.";

(4) by striking out the matter relating to formulas 4 and 5 under columns 2, 3, and 4 of the table and inserting in lieu thereof the following:

"The retired pay multiplier prescribed in section 1409(a) for the years of service credited to him under section 1405

The retired pay multiplier prescribed in section 1409(a) for the years of service credited to him under section 1405.";

(5) by striking out "pay" each place it appears in columns 3 and 4 of the table and inserting in lieu thereof "retired pay base";

(6) by striking out footnotes 1, 2, 4, and 5 of the table and redesignating footnote 3 as footnote 1;

(7) by redesignating the references to footnote 3 in column 2 of the table to conform to the redesignation made by paragraph (6); and

(8) by adding at the end the following new subsection:

"(b) **Use of Most Favorable Formula.**—If a person would otherwise be entitled to retired pay computed under more than one formula of the table in subsection (a) or of any other provision of law, the person is entitled to be paid under the applicable formula that is most favorable to him.".

(b) **Recomputation for Later Active Duty.**—

(1) **Formula for recomputation of new retirement members.**—Subsection (a) of section 1402a (relating to recomputation of retired or retainer pay to reflect later active duty of members who first became members after September 7, 1980) is amended to read as follows:

"(a) **In General.**—A member of an armed force—

"(1) who first became a member of a uniformed service after September 7, 1980;

"(2) who has become entitled to retired pay or retainer pay; and

"(3) who thereafter serves on active duty (other than for training),

is entitled to recompute his retired pay or retainer pay upon his release from that duty according to the following table.

"Column 1 Take	Column 2 Multiply by
Retired pay base or retainer pay base under section 1407 which he would be entitled to use if— (1) he were retiring upon release from that active duty; or (2) he were transferring to the Fleet Reserve or Fleet Marine Corps Reserve upon that release from active duty.	The retired pay multiplier or retainer pay multiplier prescribed in section 1409 for the sum of— (1) the years of service that may be credited to him in computing retired pay or retainer pay; and (2) his years of active service after becoming entitled to retired pay or retainer pay.".

(2) **Technical amendments.**—Such section is further amended—

(A) by inserting "**New Disability Incurred During Later Active Duty.**—" in subsection (b) after "(b)";

(B) by inserting "**Additional or Aggravated Disability Incurred During Later Active Duty.**—" in subsection (c) after "(c)";

(C) in subsection (d)—

(i) by inserting "**Computation for Later Disability.**—" after "(d)";

(ii) by striking out the second sentence; and

(iii) by striking out "monthly" both places it appears in the table; and

(D) by inserting "**Alternative Recomputation to Subsection (a) Formula.**—" in subsection (e) after "(e)".

(3) **Conforming amendments.**—Section 1402 is amended by striking out the second sentence of subsections (a) and (d).

SEC. 202. MEMBERS OF THE ARMY.

(a) INITIAL COMPUTATION OF RETIRED PAY.—The text of section 3991 (relating to computation of retired pay) is amended to read as follows:

"(a) COMPUTATION.—

"(1) IN GENERAL.—The monthly retired pay of a member entitled to such pay under this subtitle is computed according to the following table. For each case covered by a section of this title named in the column headed 'For sections', retired pay is computed by taking the steps prescribed opposite it in columns 1 and 2.

"Formula	For Sections	Column 1	Column 2
		Take	Multiply by
A	911 3918 3920 3924	Retired pay base as computed under section 1406(c) or 1407.	The retired pay multiplier prescribed in section 1409 for the years of service credited to him under section 1405.
B	3914 3917	Retired pay base as computed under section 1406(c) or 1407.	The retired pay multiplier prescribed in section 1409 for the years of service credited to him under section 3925.

"(2) ADDITIONAL 10 PERCENT FOR CERTAIN ENLISTED MEMBERS CREDITED WITH EXTRAORDINARY HEROISM.—If a member who is retired under section 3914 of this title has been credited by the Secretary of the Army with extraordinary heroism in the line of duty, the member's retired pay shall be increased by 10 percent of the amount determined under paragraph (1) (but to not more than 75 percent of the retired pay base upon which the computation of such retired pay is based). The Secretary's determination as to extraordinary heroism is conclusive for all purposes.

"(b) GENERAL RULES.—

"(1) USE OF MOST FAVORABLE FORMULA.—If a person would otherwise be entitled to retired pay computed under more than one formula of the table in subsection (a) or the table in section 1401 of this title, he is entitled to be paid under the applicable formula that is most favorable to him.

"(2) ROUNDING TO NEXT LOWER DOLLAR.—The amount computed under subsection (a), if not a multiple of $1, shall be rounded to the next lower multiple of $1.

"(3) REFERENCES.—Section references in the table in subsection (a) are to sections of this title.".

(b) RECOMPUTATION FOR ENLISTED MEMBERS AND WARRANT OFFICERS ADVANCED ON THE RETIRED LIST.—The table in section 3992 (relating to recomputation of retired pay to reflect advancement on retired list) is amended to read as follows:

"Formula	Column 1	Column 2
	Take	Multiply by
A	Retired pay base as computed under section 1406(c) or 1407 of this title	The retired pay multiplier prescribed in section 1409 of this title for the number of years credited to him under section 3925 of this title.[1]
B	Retired pay base as computed under section 1406(c) or 1407 of this title.	The retired pay multiplier prescribed in section 1409 of this title for the number of years credited to him under section 1405 of this title.

[1] In determining retired pay multiplier, credit each full month of service that is in addition to the number of full years of service creditable to the member as $1/12$ of a year and disregard any remaining fractional part of a month.".

(c) CONFORMING AMENDMENT.—Section 3925 is amended by adding at the end the following new subsection:

"(c) In determining a member's years of service under subsection (a) for the purpose of computing the member's retired pay under section 3991 of this title—

"(1) each full month of service that is in addition to the number of full years of service creditable to the member shall be credited as 1/12 of a year; and

"(2) any remaining fractional part of a year shall be disregarded.".

SEC. 203. MEMBERS OF THE NAVY AND MARINE CORPS.

(a) **Retired and Retainer Pay Formula.**—Section 6333 is amended to read as follows:

"§ 6333. Computation of retired and retainer pay

"(a) The monthly retired pay or retainer pay of a member entitled to such pay under this chapter or under section 6383 of this title is computed in accordance with the following table.

		Column 1	Column 2
"Formula	For sections	Take	Multiply by
A	6325(a) 6326	Retired pay base computed under section 1406(d) or 1407.	75%.
B	6323 6325(b) 6383	Retired pay base computed under section 1406(d) or 1407.	Retired pay multiplier prescribed under section 1409 for the years of service that may be credited to him under section 1405.
C	6330	Retainer pay base computed under section 1406(d) or 1407.	Retainer pay multiplier prescribed under section 1409 for his years of active service in the armed forces.

"(b)(1) Retired pay or retainer pay computed under this section, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

"(2) References in the table in subsection (a) are to sections of this title.".

(b) **Conforming Amendments.**—

(1) Section 6322 is amended by striking out subsection (c).

(2) Section 6323(e) is amended by striking out "retired pay—" and all that follows and inserting in lieu thereof "retired pay computed under section 6333 of this title.".

(3) Section 6325 is amended by striking out "retired pay—" in subsections (a)(2) and (b)(2) and all that follows in those subsections and inserting in lieu thereof "retired pay computed under section 6333 of this title.".

(4) Section 6326(c)(2) is amended by striking out "retired pay—" and all that follows and inserting in lieu thereof "retired pay computed under section 6333 of this title.".

(5) Section 6328 is repealed.

(6) Section 6330(c) is amended—

(A) by striking out "retainer pay—" in paragraph (1) and all that follows in that paragraph and inserting in lieu thereof "retainer pay computed under section 6333 of this title."; and

(B) by striking out paragraph (4).

(7) Section 6383 is amended—

(A) by striking out "retired pay—" in subsection (c)(2) and all that follows in that subsection and inserting in lieu thereof "retired pay computed under section 6333 of this title."; and

(B) by striking out subsection (k).

(c) **Members Advanced on Retired List.**—Section 6151 (relating to higher retired grade and pay for members who serve satisfactorily under temporary appointments) is amended by striking out subsections (b) and (c) and inserting in lieu thereof the following:

"(b) Each member (other than a former member of the Fleet Reserve or the Fleet Marine Corps Reserve) who is advanced on the retired list under this section is (unless otherwise entitled to higher retired pay) entitled to retired pay determined in accordance with the following table. References in the table are to sections of this title.

"Column 1 Take	Column 2 Multiply by
Retired pay base computed under section 1406(d) or 1407.	Retired pay multiplier prescribed under section 1409 for the years of service that may be credited to him under section 1405.

"(c) Each former member of the Fleet Reserve or the Fleet Marine Corps Reserve who is advanced on the retired list under this section is entitled to retired pay determined in accordance with the following table. References in the table are to sections of this title.

"Column 1 Take	Column 2 Multiply by
Retired pay base computed under section 1406(d) or 1407.	Retired pay multiplier prescribed under section 1409 for the number of years of service creditable for his retainer pay at the time of retirement."

SEC. 204. MEMBERS OF THE AIR FORCE.

(a) INITIAL COMPUTATION OF RETIRED PAY.—The text of section 8991 (relating to computation of retired pay) is amended to read as follows:

"(a) COMPUTATION.—

"(1) IN GENERAL.—The monthly retired pay of a member entitled to such pay under this subtitle is computed according to the following table. For each case covered by a section of this title named in the column headed 'For sections', retired pay is computed by taking the steps prescribed opposite it in columns 1 and 2.

"Formula	For sections	Column 1 Take	Column 2 Multiply by
A	8911 8918 8920 8924	Retired pay base as computed under section 1406(e) or 1407.	The retired pay multiplier prescribed in section 1409 for the years of service credited to him under section 1405.
B	8914 8917	Retired pay base as computed under section 1406(e) or 1407.	The retired pay multiplier prescribed in section 1409 for the years of service credited to him under section 8925.

"(2) ADDITIONAL 10 PERCENT FOR CERTAIN ENLISTED MEMBERS CREDITED WITH EXTRAORDINARY HEROISM.—If a member who is retired under section 8914 of this title has been credited by the Secretary of the Air Force with extraordinary heroism in the line of duty, the member's retired pay shall be increased by 10 percent of the amount determined under paragraph (1) (but to not more than 75 percent of the retired pay base upon which the computation of such retired pay is based). The Secretary's determination as to extraordinary heroism is conclusive for all purposes.

"(b) GENERAL RULES.—

"(1) USE OF MOST FAVORABLE FORMULA.—If a person would otherwise be entitled to retired pay computed under more than one formula of the table in subsection (a) or the table in section 1401 of this title, he is entitled to be paid under the applicable formula that is most favorable to him.

"(2) ROUNDING TO NEXT LOWER DOLLAR.—The amount computed under subsection (a), if not a multiple of $1, shall be rounded to the next lower multiple of $1.

"(3) REFERENCES.—Section references in the table in subsection (a) are to sections of this title.".

(b) **Recomputation for Enlisted Members and Warrant Officers Advanced on the Retired List.**—The table in section 8992 (relating to recomputation of retired pay to reflect advancement on retired list) is amended to read as follows:

“Formula	Column 1 Take	Column 2 Multiply by
A	Retired pay base as computed under section 1406(e) or 1407 of this title	The retired pay multiplier prescribed in section 1409 of this title for the number of years credited to him under section 8925 of this title.[1]
B	Retired pay base as computed under section 1406(e) or 1407 of this title	The retired pay multiplier prescribed in section 1409 of this title for the number of years credited to him under section 1405 of this title.

[1] In determining retired pay multiplier, credit each full month of service that is in addition to the number of full years of service creditable to the member as 1/12 of a year and disregard any remaining fractional part of a month.”.

(c) **Conforming Amendment.**—Section 8925 is amended by adding at the end the following new subsection:

“(c) In determining a member's years of service under subsection (a) for the purpose of computing the member's retired pay under section 8991 of this title—

“(1) each full month of service that is in addition to the number of full years of service creditable to the member shall be credited as 1/12 of a year; and

“(2) any remaining fractional part of a year shall be disregarded.”.

SEC. 205. MEMBERS OF THE COAST GUARD.

(a) **In General.**—Section 423 of title 14, United States Code (relating to the computation of retired pay), is amended to read as follows:

“§ 423. Computation of retired pay

“(a)(1) The retired pay of a member who first became a member of a uniformed service (as defined in section 101 of title 10) before September 8, 1980, is determined by multiplying—

“(A) the sum of—

“(i) the basic pay of the member's retired grade or rate, and

“(ii) all permanent additions thereto including longevity credit to which the member was entitled at the time of retirement; and

“(B) the retired pay multiplier determined under section 1409 of title 10 for the number of years of service that may be credited to the member under section 1405 of such title.

“(2) In the case of an officer who served as Commandant of the Coast Guard, retired pay under paragraph (1) shall be computed at the highest rate of basic pay applicable to the officer while so serving.

“(3) In the case of an enlisted member who served as the master chief petty officer of the Coast Guard, retired pay under paragraph (1) shall be computed at the highest rate of basic pay to which the member was entitled while so serving, if that basic pay is greater than the basic pay of the grade or rate to which the member is otherwise entitled at the time of retirement.

“(4) In the case of an officer whose retired pay is computed on the pay of a grade for which basic pay is not based upon years of service, retired pay under paragraph (1) shall be computed on the basis of the number of years of service for which the officer would be entitled to credit in the computation of pay on the active list had the officer been serving in the grade of captain at the time of retirement.

“(b) The retired pay of a member who first became a member of a uniformed service (as defined in section 101 of title 10) on or after September 8, 1980, is determined by multiplying—

“(1) the retired pay base determined under section 1407 of title 10; and

“(2) the retired pay multiplier determined under section 1409 of title 10 for the number of years of service that may be credited to the member under section 1405 of such title.

“(c)(1) In computing for the purpose of subsection (a) or (b) the number of years of service that may be credited to a member under section 1405 of title 10—

“(A) each full month of service that is in addition to the number of full years of service creditable to the member shall be counted as 1/12 of a year; and

"(B) any remaining fractional part of a month shall be disregarded.

"(2) Retired pay computed under this section, if not a multiple of $1, shall be rounded to the next lower multiple of $1.".

(b) CONFORMING AMENDMENTS.—

(1) Section 46 of such title is amended by striking out "and retired pay computed at the highest rates of basic pay applicable to him while he served as Commandant" in subsections (a), (b), and (c).

(2) Section 47 of such title is amended—

(A) by striking out "and retired pay" in subsections (b) and (c); and

(B) by striking out "and with the retired pay of that grade" in subsection (d).

(3) Section 51 of such title is amended—

(A) by striking out "and retired pay" in subsections (a) and (b); and

(B) by striking out "and with the retired pay of that grade" in subsection (c).

(4) Section 288(b) of such title is amended by striking out "Except as provided in section 423(b) of this title, the retired pay" and inserting in lieu thereof "Retired pay computed under section 423(a) of this title".

(5) Sections 291, 292, and 293 of such title are amended by striking out ", with retired pay of the grade with which retired".

(6) Section 327(b)(1) of such title is amended by striking out ", and with the pay".

(7) Section 334 of such title is amended—

(A) by striking out ", with retired pay of the grade with which retired" in subsections (a) and (b); and

(B) by striking out the second sentence of subsection (b).

(8) Sections 353, 354, 355, and 362 of such title are amended by striking out ", with retired pay of the grade or rating with which retired".

(9) Section 357 is amended—

(A) by striking out "the retired pay of the grade or rating with which retired" in subsection (b) and inserting in lieu thereof "retired pay"; and

(B) by striking out "by an amount" and all that follows in subsection (c) and inserting in lieu thereof "by an amount equal to 10 percent of—

"(1) the active-duty pay and permanent additions thereto of the grade or rating with which retired, in the case of a member whose retired pay is computed under section 423(a) of this title; or

"(2) the member's retired pay base under section 1407 of title 10, in the case of a member whose retired pay is computed under section 423(b) of this title.".

(10) Sections 421 and 422 of such title are amended by striking out "rating" each place it appears and inserting in lieu thereof "rate".

(11) Section 424 of such title is amended to read as follows:

"§ 424. Limitations on retirement and retired pay

"(a) The provisions of any section of this title shall not be construed so as to prevent any member from being placed on the retired list with the highest grade or rate and the highest retired pay to which the member may be entitled under the provisions of any other section of this title or under any other law.

"(b) In no case may the retired pay of a member exceed 75 percent of (1) the sum of the active-duty pay and all permanent additions thereto (including longevity credit to which the member is entitled) of the grade or rate on which the member's pay is computed, or (2) the retired pay base determined under section 1407 of title 10, as appropriate.".

SEC. 206. COMMISSIONED OFFICERS OF THE NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION.

Section 16 of the Coast and Geodetic Survey Commissioned Officers Act of 1948 (33 U.S.C. 853o) is amended to read as follows:

"SEC. 16. (a) Each commissioned officer on the retired list who first became a member of a uniformed service (as defined in section 101 of title 10, United States Code) before the date of the enactment of the Military Retirement Reform Act of 1986 shall receive retired pay at the rate determined by multiplying—

"(1) the retired pay base determined under section 1406(g) of title 10, United States Code; and

"(2) 2½ percent of the number of years of service that may be credited to the officer under section 1405 of such title as if the officer's service were service as a member of the Armed Forces.

The retired pay so computed may not exceed 75 percent of the retired pay base.

"(b) Each commissioned officer on the retired list who first became a member of a uniformed service (as defined in section 101 of title 10, United States Code) on or after the date of the enactment of the Military Retirement Reform Act of 1986 shall receive retired pay at the rate determined by multiplying—

"(1) the retired pay base determined under section 1407 of title 10, United States Code; and

"(2) the retired pay multiplier determined under section 1409 of such title for the number of years of service that may be credited to the officer under section 1405 of such title as if the officer's service were service as a member of the Armed Forces.

"(c)(1) In computing the number of years of service of an officer for the purposes of subsection (a)—

"(A) each full month of service that is in addition to the number of full years of service creditable to the officer shall be credited as 1/12 of a year; and

"(B) any remaining fractional part of a month shall be disregarded.

"(2) Retired pay computed under this section, if not a multiple of $1, shall be rounded to the next lower multiple of $1.".

SEC. 207. COMMISSIONED OFFICERS OF THE PUBLIC HEALTH SERVICE.

(a) Mandatory Retirement.—Section 210(g)(3) of the Public Health Service Act (42 U.S.C. 211(g)(3)) is amended by striking out subparagraphs (A) and (B) and inserting in lieu thereof the following:

"(A) in the case of an officer who first became a member of a uniformed service before the date of the enactment of the Military Retirement Reform Act of 1986, at the rate of 2½ percent of the retired pay base determined under section 1406(h) of title 10, United States Code, for each year, not in excess of 30, of his active commissioned service in the Service; or

"(B) in the case of an officer who first became a member of a uniformed service on or after the date of the enactment of the Military Retirement Reform Act of 1986, at the rate determined by multiplying—

"(i) the retired pay base determined under section 1407 of title 10, United States Code; and

"(ii) the retired pay multiplier determined under section 1409 of such title for the number of years of his active commissioned service in the Service.".

(b) Voluntary Retirement.—Section 211(a) of such Act (42 U.S.C. 212(a)) is amended—

(1) in paragraphs (4) and (5), by striking out "paragraph (6)" and inserting in lieu thereof "paragraphs (6) and (7)";

(2) in paragraph (6), by striking out "on or after the date of the enactment of the Department of Defense Authorization Act, 1981," and inserting in lieu thereof "during the period beginning on September 8, 1980, and ending on the date of the enactment of the Military Retirement Reform Act of 1986";

(3) by redesignating paragraph (7) as paragraph (8) and by striking out "(4) or (5)" in such subsection and inserting in lieu thereof "(4), (5), or (7)"; and

(4) by inserting after paragraph (6) the following new paragraph (7):

"(7) The retired pay of a commissioned officer retired under this subsection who first became a member of a uniformed service on or after the date of the enactment of the Military Retirement Reform Act of 1986 is determined by multiplying—

"(A) the retired pay base determined under section 1407 of title 10, United States Code; and

"(B) the retired pay multiplier determined under section 1409 of such title for the number of years of service credited to the officer under paragraph (4).".

TITLE III—MISCELLANEOUS RETIREMENT PROVISIONS

SEC. 301. UNREDUCED RETIRED PAY AS BASIS FOR SURVIVOR BENEFIT PLAN ANNUITIES.

(a) Definition of Base Amount.—Section 1447(2)(A) (relating to the definition of "base amount" for purposes of the Survivor Benefit Plan) is amended by inserting "(determined without regard to any reduction under section 1409(b)(2) of this title)" after "retired or retainer pay".

(b) Conforming Amendments.—

(1) Section 1451 is amended by adding at the end the following new subsection:

"(h) Computation of a member's retired pay for purposes of this section shall be made without regard to any reduction under section 1409(b)(2) of this title.".

(2) Section 1452(c) is amended by adding at the end the following new sentence: "Computation of a member's retired pay for purposes of this subsection

shall be made without regard to any reduction under section 1409(b)(2) of this title.".

SEC. 302. REQUIREMENT OF RESERVE-COMPONENT MEMBERSHIP FOR RECEIPT OF NON-REGULAR-SERVICE RETIRED PAY.

Section 1331(a) (relating to age and service requirements for retired pay for nonregular service) is amended—

(1) by striking out "and" at the end of paragraph (3);

(2) by striking out the period at the end of paragraph (4) and inserting in lieu thereof "; and"; and

(3) by adding at the end the following new paragraph:

"(5) in the case of a person who completed the years of service required for eligibility for such retired pay on or after the date of the enactment of the Military Retirement Reform Act of 1986, he is a member of a reserve component.".

SEC. 303. DEFINITION.

Section 101 (relating to definitions for purposes of title 10) is amended by adding at the end the following new paragraph:

"(43) 'Uniformed services' means—

"(A) the armed forces;

"(B) the commissioned corps of the National Oceanic and Atmospheric Administration; and

"(C) the commissioned corps of the Public Health Service.".

SEC. 304. TECHNICAL AND CONFORMING AMENDMENTS.

(a) UNIFORMED SERVICES DEFINITION.—

(1) Section 716 is amended by striking out subsection (c).

(2) Section 1040(c) is amended by striking out "'Dependent' and 'uniformed services' in this section have the meanings of those terms as defined in" and inserting in lieu thereof "In this section, 'dependent' has the meaning given that term in".

(3) Section 1402 is amended by striking out "(as defined in section 1407(a)(2) of this title)" each place it appears.

(4) Section 2830 is amended by striking out subsection (c).

(b) CLERICAL AMENDMENTS.—

(1) The table of sections at the beginning of chapter 67 is amended by adding at the end the following new item:

"1338. Limitations on revocation of retired pay.".

(2) The table of sections at the beginning of chapter 71 is amended—

(A) by striking out the item relating to section 1402 and inserting in lieu thereof the following:

"1402. Recomputation of retired or retainer pay to reflect later active duty of members who first became members before September 8, 1980.";

(B) by striking out the items relating to sections 1406 and 1407 and inserting in lieu thereof the following:

"1406. Retired pay base for members who first became members before September 8, 1980.
"1407. Retired pay base for members who first became members after September 7, 1980."; and

(C) by adding at the end the following new items:

"1409. Retired pay multiplier.
"1410. Rules of construction.
"1411. Rounding to next lower dollar.".

(3) The heading of section 1402 is amended to read as follows:

"§1402. Recomputation of retired or retainer pay to reflect later active duty of members who first became members before September 8, 1980".

(3) The table of sections at the beginning of chapter 571 is amended—

(A) by striking out the item relating to section 6328; and

(B) by striking out the item relating to section 6333 and inserting in lieu thereof the following:

"6333. Computation of retired and retainer pay.".

SEC. 305. CODIFICATION OF PERMANENT LIMITATIONS ON RETIRED AND RETAINER PAY PROVIDED IN APPROPRIATION ACTS.

(a) LIMITATION ON CREDITING CERTAIN UNSERVED SERVICE IN ENTITLEMENT TO AND COMPUTATION OF RETAINER PAY.—

(1) CODIFICATION.—Section 6330(d) is amended—

(A) by inserting "(1)" after "(d)";

(B) by striking out the second sentence; and

(C) by adding at the end the following:

"(2) In determining a member's eligibility for transfer to the Fleet Reserve or the Fleet Marine Corps Reserve under subsection (b)—

"(A) a completed minority enlistment of the member is counted as four years of active service, if creditable to the member for such purpose before December 31, 1977; and

"(B) an enlistment of the member terminated within three months before the end of the term of enlistment is counted as active service for the full term, if creditable to the member for such purpose before December 31, 1977.

"(3)(A) Subject to subparagraph (B), in determining a member's years of active service for the computation of retainer pay under subsection (c)—

"(i) a completed minority enlistment of the member is counted as four years of active service; and

"(ii) an enlistment of the member terminated within three months before the end of the term of enlistment is counted as active service for the full term.

"(B) In the case of a member who is transferred to the Fleet Reserve or the Fleet Marine Corps Reserve under this section after December 30, 1977, service attributable under subparagraph (A) to time which, after December 31, 1977, is not actually served by the member may not be counted.".

(2) Repeal of source law.—Section 8039 of the Department of Defense Appropriations Act, 1985 (as contained in section 101(h) of Public Law 98-473 (98 Stat. 1930)), is repealed.

(b) Termination of Six-Month Rounding Rule.—

(1) General rule.—Retired pay or retainer pay may not be paid to a covered member of the Armed Forces for any month in an amount that is greater than the amount otherwise determined to be payable after such reductions as may be necessary to reflect adjusting the computation of retired pay or retainer pay that includes credit for a part of a year of service to permit credit for a part of a year of service only for such month or months actually served.

(2) Exceptions.—The limitation in paragraph (1) does not apply to a member who before January 1, 1982—

(A) applied for retirement or transfer to the Fleet Reserve or Fleet Marine Corps Reserve;

(B) was being processed for retirement under the provisions of chapter 61 of title 10, United States Code, or who was on the temporary disability retired list and thereafter retired under the provisions of section 1210(c) or 1210(d) of such title; or

(C) was retired or in an inactive status and would have been eligible for retired pay under the provisions of chapter 67 of such title, but for the fact that the person was under 60 years of age.

(3) Definition of covered member.—For the purposes of this subsection, the term "covered member of the Armed Forces" means a member of the Armed Forces who became entitled to retired or retainer pay during the period beginning on January 1, 1982, and ending on September 30, 1983.

(4) Repeal of source law.—Section 8054 of the Department of Defense Appropriations Act, 1985 (as contained in section 101(h) of Public Law 98-473), is repealed.

(5) Cross reference.—For the effective date of October 1, 1983, for provisions making permanent programmatic changes in law to accomplish the policy provided in such section 8054 (and prior provisions of law), see section 923(h) of the Department of Defense Authorization Act, 1984 (Public Law 98-94).

SEC. 306. REPEAL OF LIMITATION ON PAYMENTS TO ACCRUAL FUND FOR FISCAL YEAR 1986.

Section 666 of the Department of Defense Authorization Act, 1986 (Public Law 99-145; 99 Stat. 659), is repealed.

TITLE IV—FISCAL YEAR 1986 UNAUTHORIZED APPROPRIATIONS

SEC. 401. PROHIBITION ON OBLIGATION OF UNAUTHORIZED FISCAL YEAR 1986 DEFENSE APPROPRIATIONS.

(a) Prohibition.—None of the amounts described in subsection (b), totaling $5,582,130,000, may be obligated or expended for any purpose except as authorized in section 402 or as authorized after the date of the enactment of this Act in a law other than an appropriation Act (including a continuing resolution).

(b) Covered Amounts.—The amounts referred to in subsection (a) are the amounts provided for programs, projects, and activities of the Department of Defense in fiscal year 1986 defense appropriations that are in excess of the amounts provided for such programs, projects, and activities in fiscal year 1986 defense authorizations.

(c) DEFINITIONS.—For the purposes of this title:

(1) FISCAL YEAR 1986 DEFENSE APPROPRIATIONS.—The term "fiscal year 1986 defense appropriations" means amounts appropriated or otherwise made available to the Department of Defense for fiscal year 1986 in the Department of Defense Appropriations Act, 1986 (as contained in section 101(b) of Public Law 99-190).

(2) FISCAL YEAR 1986 DEFENSE AUTHORIZATIONS.—The term "fiscal year 1986 defense authorizations" means amounts authorized to be appropriated for the Department of Defense for fiscal year 1986 in the Department of Defense Authorization Act, 1986 (Public Law 99-145), as set forth in such Act and in the joint explanatory statement of the committee of conference on the bill S. 1160 (99th Congress), printed in House Report 99-235.

SEC. 402. AUTHORIZATION OF OBLIGATION FOR CERTAIN UNAUTHORIZED APPROPRIATIONS.

(a) AMOUNT AVAILABLE FOR OBLIGATION.—Of the amounts described in section 401(b), $2,291,630,000 may be obligated or expended for programs, projects, and activities of the Department of Defense listed in subsection (b) (for which amounts were provided in fiscal year 1986 defense appropriations).

(b) SPECIFICATION OF PROGRAMS, PROJECTS, AND ACTIVITIES.—Programs, projects, and activities referred to in subsection (a) (and the total amount of fiscal year 1986 defense appropriations that may be obligated or expended for each such program, project, and activity) are as follows:

(1) ARMY PROCUREMENT.—
Mortar ammunition, $91,490,000, of which—
$30,800,000 is available only for 4.2-inch high-explosive cartridges;
$45,400,000 is available only for 81-millimeter for high-explosive United Kingdom round cartridges;
$2,300,000 is available only for 81-millimeter Imp 1/10 range training cartridges;
$7,100,000 is available only for 81-millimeter illuminating cartridges; and
$5,900,000 is available only for 81-millimeter smoke cartridges.
War reserve ammunition, $190,200,000.
Snap anti-jam equipment program, $14,650,000.
AFATADS, $24,320,000.
Boat, bridge erection program, $25,400,000.
Follow-on air defense equipment, $142,650,000 (subject to subsection (c)).

(2) NAVY PROCUREMENT.—
F-14A aircraft, $590,830,000.
P-3C aircraft modification, $361,110,000.
AN/SQR-17 acoustic processor, $21,340,000.
Battleship reactivation program, $466,380,000.
Cost growth for the MCM mine countermeasures ship program, $97,000,000.
MCM-1 mine countermeasures ship program, $189,010,000.
ARTB training ship (conventional) program, $174,100,000.
Service craft, $60,850,000.
Procurement, Marine Corps, general increase, $13,260,000.

(3) AIR FORCE PROCUREMENT.—
Air defense competition, $182,590,000.
AC-130H drug interdiction aircraft, $31,760,000.

(4) DEFENSE AGENCIES PROCUREMENT.—Other DIS equipment, $5,120,000.

(5) AIR FORCE RESERVE, PROCUREMENT.— C-130H aircraft, $144,120,000.

(6) RESEARCH, DEVELOPMENT, TEST, AND EVALUATION.—
DIVAD alternatives, Army, $38,520,000 (subject to subsection (c)).
Rolling air frame missile, Navy, $10,340,000.
Whitehall quick reaction surveillance system, Navy, $18,910,000.

(7) OPERATION AND MAINTENANCE, ARMY.—
Drug testing, $1,430,000.
AIDS testing, $40,510,000.
Medical enhancements, $19,020,000.
Medical readiness, $37,280,000.
DIVAD alternatives, Army, $4,560,000.
Readiness initiatives, $130,290,000.

(8) OPERATION AND MAINTENANCE, NAVY.—

Ready Reserve fleet dispersal, $3,420,000.
P3-A modifications, $2,850,000.
AIDS testing, $4,760,000.
Coast Guard reimbursement, $100,000,000.

(9) OPERATION AND MAINTENANCE, AIR FORCE.—
Medical readiness, $5,330,000.
AIDS testing, $4,760,000.
Classified project, $480,000.

(10) OPERATION AND MAINTENANCE, DEFENSE AGENCIES.—
Peer review, $7,130,000.
Quality assurance, $28,530,000.
Defense Agencies classified project, $1,200,000.

(11) OTHER OPERATION AND MAINTENANCE ACCOUNTS.—
Force structure initiative, Army Reserve, $6,610,000.
Roland missile maintenance, Army National Guard, $3,900,000.
AIDS testing, Army National Guard, $2,380,000.
Force structure initiative, Army National Guard, $3,900,000.
Environmental Projects, Army National Guard, $380,000.
Environmental restoration, $360,520,000.
ADP management fund, $100,000,000.

(c) PRIOR REPORT REQUIREMENTS FOR CERTAIN PROJECTS.—Fiscal year 1986 defense appropriations for programs, projects, and activities which under subsection (b) are made subject to this subsection may not be obligated or expended until the Secretary of Defense submits to the appropriate committees of Congress a report setting forth in detail the manner in which funds are proposed to be obligated or expended for such project.

(d) MODIFICATION OF FISCAL YEAR 1986 AUTHORIZATION FOR CERTAIN SHIPBUILDING PROGRAMS.—Notwithstanding the amounts specified in section 102(c) of the Department of Defense Authorization Act, 1986 (Public Law 99-145; 99 Stat. 592)—

(1) the amount authorized to be appropriated for fiscal year 1986 for Shipbuilding and Conversion, Navy, is $10,703,750,000; and

(2) the amounts available for the following shipbuilding and conversion programs for fiscal year 1986 are as follows:

For the battleship reactivation program, $466,380,000.
For the MCM-1 mine countermeasures ship program, $189,010,000.
For cost growth for the MCM mine countermeasures ship program, $97,000,000.
For the ARTB nuclear training ship program, $174,100,000.
For service craft, $60,850,000.

(e) MODIFICATION OF FISCAL YEAR 1986 AUTHORIZATION FOR OTHER APPROPRIATION ACCOUNTS.—Notwithstanding the amounts specified in the Department of Defense Authorization Act, 1986 (Public Law 99-145; 99 Stat. 595), the amounts authorized to be appropriated for fiscal year 1986 for the following accounts are as follows:

(1) Air Force Reserve Procurement, $144,120,000.
(2) Environmental Restoration, Defense, $360,520,000.
(3) ADP Equipment Management Fund, $100,000,000.

(f) PROGRAM LIMITATIONS.—All limitations and requirements set forth in the Department of Defense Authorization Act, 1986 (and in the joint explanatory statement of the committee of conference on the bill S.1160 (99th Congress), printed in House Report 99-235), shall apply to the obligation of funds authorized by subsection (b) in the same manner as if the funds made available for obligation by such subsection had been authorized in such Act.

(g) TRANSFER AUTHORITY.—For the purposes of section 1401 the Department of Defense Authorization Act, 1986 (99 Stat. 742), authorizations in subsection (b) shall be deemed to have been made available to the Department of Defense in such Act.

SEC. 403. PROGRAMS FOR WHICH AMOUNTS ARE NOT AUTHORIZED FOR OBLIGATION.

Programs, projects, and activities of the Department of Defense for which amounts provided in fiscal year 1986 defense appropriations are subject to section 401 (other than those programs, projects, and activities described in section 402) are the following:

(1) ARMY PROCUREMENT.—
AH-1S attack helicopter (Cobra Tow).
Army Helicopter Improvement Program (AHIP).
Stinger missile program.
M577A2 Carrier, command post light, FT.
M113 Carrier, personnel, FT, ARM.

M88 recovery vehicles.
120-millimeter mortar.
AT-4 lightweight multipurpose system.
Chemical demilitarization program.
Production base modernization.
Special operations forces communications equipment.
KG-84 dedicated loop encrypting device.
AFRTS (audiovisual).
Deployable medical system.
CBT Support equipment medical.

(2) NAVY PROCUREMENT.—
Refueling tanker modification.
APN weapons production facility.
War reserve munitions.
Medical support equipment.
Undistributed reduction, Other Procurement, Navy.
SSN-688 submarine program.
Coastal defense augmentation.
Undistributed reduction, Shipbuilding and Conversion, Navy.

(3) AIR FORCE PROCUREMENT.—
Air Force One replacement.
KC-10 aircraft.
B-1B modifications.
B-52 modifications.
A-7 modifications.
F/RF-4 modifications (including $92,000,000 for FA INS/HUD upgrade).
Airborne command post modifications.
AMRAAM advanced procurement.
Rapier (Turkey).
Minutemen modifications.
War reserve munitions, Air Force.
Intelligence data handling system.
Medical readiness, Air Force.

(4) ARMY RESERVE PROCUREMENT.—
Miscellaneous equipment.
Truck SLEP.

(5) NAVY RESERVE PROCUREMENT.—Miscellaneous equipment.

(6) MARINE CORPS RESERVE PROCUREMENT.—Miscellaneous equipment.

(7) AIR FORCE RESERVE PROCUREMENT.—Miscellaneous equipment.

(8) ARMY NATIONAL GUARD PROCUREMENT.—
Miscellaneous equipment.
Improved TOW vehicle.
M198 howitzer.
Truck SLEP.

(9) AIR NATIONAL GUARD PROCUREMENT.—Miscellaneous equipment.

(10) RESEARCH AND DEVELOPMENT.—
Medical research/AIDS, Army.
Ship subsystems development/LBTS, Navy.
Bigeye operational test, Navy.
Space Defense System, Air Force.
MEECN communications upgrade, Air Force.
Air Force One, Air Force.
Liquid synthetic fuels, Air Force.
Precision tactical approach system, Air Force.
Director of Test and Evaluation.

(11) OPERATION AND MAINTENANCE.—
Real growth reductions not taken.
Audit/inventory report reduction not taken.
Civilian training.
F-4 upgrade, Air Force Reserve.

SEC. 404. AUTHORIZED MILITARY CONSTRUCTION PROJECT.

(a) AUTHORIZED PROJECT.—

(1) AUTHORIZATION.—The Secretary of the Navy may carry out the military construction project described in paragraph (2), funds for such project having been appropriated in the Military Construction Appropriations Act, 1986 (Public Law 99-173; 99 Stat. 1024).

(2) Project description.—The project referred to in paragraph (1) is a project for the construction of a berthing pier and bulkhead at the Naval Station, Staten Island, New York. The amount authorized for the project is $37,750,000.

(b) Construction With Public Law 99-167.—

(1) Project authorizations.—The project authorization in subsection (a) shall be deemed to have been included in section 201(a) of the Military Construction Authorization Act, 1986 (Public Law 99-167; 99 Stat. 966).

(2) Appropriation authorization totals.—The total amount authorized to be appropriated for the Department of the Navy set forth in section 602(a) of such Act (99 Stat. 980), and the amount authorized for military construction projects inside the United States set forth in paragraph (1) of that section, shall be deemed to be increased by the amount specified in subsection (a)(2).

(3) Limitation relating to funds for naval strategic homeporting.—For the purposes of section 205 of such Act (99 Stat. 971), amounts available for the project authorized in subsection (a) shall be deemed to be funds appropriated pursuant to an authorization in section 602 of such Act for Naval Strategic Homeporting.

(c) Prohibition on Obligation of Excess Appropriation.—Of the amount appropriated for military construction for the Navy for fiscal year 1986, $1,950,000 may not be obligated or expended for any purpose except as authorized after the date of the enactment of this Act in a law other than an appropriation Act (including a continuing resolution), such amount being the amount by which the amount appropriated for the project authorized by subsection (a) is in excess of the amount authorized for that project by subsection (a).

EXPLANATION OF THE COMMITTEE AMENDMENT

The committee adopted an amendment in the form of a substitute during the consideration of H.R. 4420. The bill, as amended, is discussed in the remainder of the report.

PURPOSE

The purpose of H.R. 4420 is to revise the uniformed services nondisability retirement system for individuals who become members of a uniformed service for the first time on or after the date of enactment. The bill, also, would provide authority to the Department of Defense to obligate and expend certain appropriations contained in the fiscal year 1986 Defense Appropriations Act (Public Law 99-190) and restrict the authority to obligate other such appropriations.

RETIREMENT REFORM

THE CURRENT UNIFORMED SERVICES RETIREMENT SYSTEM

The uniformed services retirement system has existed essentially unchanged for the last 50 years, and its basic form was established over a century ago. During the past two decades, the uniformed services retirement system has come under increasing scrutiny and attack. By recommending the changes included in H.R. 4420, the committee is attempting to put the issue of structural reform of the uniformed services retirement system to rest for the foreseeable future. If its recommendations are adopted, the committee believes the criticism of the uniformed services retirement system will subside and the concerns of service members regarding the uncertainty of retirement benefits can be assuaged.

BACKGROUND

The current system

Most of the features of the current uniformed services retirement system are well known.

(1) An immediate annuity is available to a service member who completes 20 years of service; no benefit is available to a service member who does not complete 20 years of service.

(2) Retired pay equals high-3 average basic pay times a multiplier. (For those becoming members of a uniformed service for the first time before September 7, 1980, retired pay is based on final basic pay instead of high-3 average basic pay.) The multiplier equals 2½ percent times years of service and ranges from 50 percent at 20 years of service to 75 percent at 30 or more years of service.

(3) Retired pay is adjusted annually by the increase in the cost of living as measured by the consumer price index (CPI).

The uniformed services retirement system is noncontributory. However, the service member contributes, while on active duty, to the social security system and, thereby, earns eligibility for a social security retirement benefit. The receipt of uniformed services retired pay has no effect on social security retirement benefits and vice versa.

Past studies

Six major studies of the uniformed services retirement system have been conducted in the past 10 years. All have recommended change in the system. These recommendations have followed the same general form:

(1) Earlier vesting. A benefit from the retirement system, though usually deferred, after completing as few as 5 or 10 years of service.

(2) A reduced immediate annuity for those service members completing only 20 years of service, perhaps coupled with a larger annuity for those completing 30 or more years of service. Often the reduced annuity for the early retirees would be increased to current levels at some later point (for example, when the member would have completed 30 years of service or at some age associated with normal retirement).

(3) Averaging the final 3 or 5 years of basic pay as the base for computing the retirement annuity.

(4) Integrating uniformed services retired pay with the social security benefit earned as a result of uniformed service.

(5) Early withdrawal. A lump sum payment representing some commuted value of the retirement annuity but offered to offset the predicted adverse retention impact of a reduced lifetime stream of earnings.

Recent changes

Although none of the proposals generated by the major studies was adopted, since 1958 the uniformed services retirement system has been modified on a piecemeal basis a number of times. Most of these changes have had a substantial impact on the lifetime value of a retirement annuity. For example, the cost-of-living adjustment has been changed from a semi-annual to an annual adjustment; retired pay for those first becoming members of a uniformed service on or after September 7, 1980, will be computed based on high-3 average basic pay instead of final basic pay; and retired pay is rounded down to the next lowest dollar whenever adjustments are made in the monthly annuity. In addition, Congress has instituted short-term changes, such as "half-COLA" for retirees under age 62.

SUMMARY OF THE COMMITTEE RECOMMENDATIONS

MAJOR CHANGES

The committee recommends two basic changes to the uniformed services retirement system: a change in the formula for computing the multiplier and a change in the length of the averaging period used to calculate the base for computing retired pay. Both of these changes would apply only to those who first become members of the uniformed service on or after the date of enactment of the change. No member who had joined a uniformed service before the date of enactment of the change—much less any retiree of a uniformed service—would be affected.

The committee recommends that retired pay be computed based on the following *formula:* 2 percent for each year of service up to 20 years of service plus 3.5 percent for each year thereafter, up to 30 years of service. The formula would result in a multiplier of 40 percent of average basic pay for 20 years of service, and a maximum of 75 percent of average basic pay for 30 years of service, as shown in the following table:

Years of Service	*Recommended Multiplier*
20	40.0
21	43.5
22	47.0
23	50.5
24	54.0
25	57.5
26	61.0
27	64.5
28	68.0
29	71.5
30	75.0

The formula can be expressed in a different form (and is so expressed in the legislation). Under this alternative form, the current formula (2.5 percent for each year of service) would be retained, but the multiplier would be reduced by 1 percentage point for each year by which the member's creditable service falls short of 30 years.

As mentioned above, this formula results in a multiplier of 40 percent for a member who retires after completing 20 years of service. The subtractive approach simplifies the formula and maintains a close relationship with the present system—which would continue in effect for those members who had joined the service before the date of enactment of the change. It also highlights the desire to set 30 years of service as a full career.

The committee also recommends a change in the *length of the averaging period* used to compute the average basic pay against which the multiplier is applied. Service members who retire with 20 years of service would compute their average basic pay based on the highest basic pay they received during any 60 months of their service (usually the last five years of service). The averaging period would be reduced by one month for each five months of additional service beyond 20 years. For members who serve for 30 or more years, the averaging period would be 36 months (usually the last three years).

Both of the recommendations of the committee are intended to provide an incentive for members who complete 20 years of service to remain on active duty. First, the multiplier would increase by 3.5 percent for each additional year of service (instead of 2.5 percent under the current formula). Second, the averaging period would decrease by one month for each five months of additional service (instead of no decrease under the current system). These two changes would increase the value of additional service for members who are retirement eligible.

The Congressional Budget Office estimates that these changes would increase the number of service members with over 20 years of service by over 12 percent. These are the most experienced service members on active duty, the services have invested the most in their education and training, and they possess a broad range of backgrounds and experience. In the future (20 or more years from now), the weapon systems, tactics, and doctrine of the armed forces will undoubtedly be substantially more complex than they are today. In addition, the need for a young and vigorous force 20 years from now, though continuing to exist, will decline just as it has over the past 20 years. The committee believes the increased incentive to serve beyond 20 years of service will serve well the uniformed services of the future.

OTHER RECOMMENDATIONS

The committee recommends no change to the *cost-of-living adjustment mechanism* as part of this retirement reform legislation, recognizing the current uncertainty of such adjustments in today's fiscal environment.

The committee recommendations would make some modest changes to the *reserve retirement system* in addition to the changes to the nondisability system. The Department of Defense proposed a reduction in the multiplier for reserve retirees proportional to the reduction proposed for nondisability retirees. In addition the department proposed that both the averaging and the cost-of-living adjustment changes would apply to reserve retirement benefits as well. The committee recommends that the only change to the benefit structure of the reserve retirement system, at this time, be limited to the application of the averaging period (five years for reservists retiring with 20 years of creditable Federal service, reduced by one month for each five months of additional creditable service, and three years for reservists retiring with 30 or more years).

The committee recommends that any further changes to the reserve system be deferred. Little thought appeared to have been given to the matter by the department; the change proposed appeared to be an afterthought. The committee believes that the reserve retirement system needs comprehensive review. The reserve retirement system, for example, plays a much smaller role in force management than the active duty nondisability system. The objectives of the reserve retirement system need to be evaluated and the system restructured to support those objectives.

The committee directs the Secretary of Defense to review the reserve retirement system in conjunction with the review of overall reserve compensation required by the Congress in the Sixth Quadrennial Review of Military Compensation and to submit, based on that review, a proposal to change the reserve retirement system. The committee hopes that this direction is sufficient to obtain a responsive proposal from the department without having to repeat the legislative maneuvers utilized to obtain the grudging submission of the current proposals. The committee is willing to work with the department in this task but is prepared to force the issue if such action is required.

Similarly, the committee recommends only a change in the averaging period for calculating the base for computing retirement annuities under the *disability retirement system.*

Finally, the Department of Defense proposals result in an adverse impact on the *Survivor Benefit Plan* for uniformed services retirees. Under the department's proposals, the survivor annuity would be equal to 55 percent of the reduced level of retired pay. Thus, a survivor of a member who retired with 20 years of service, under the nondisability retirement system recommended by the committee, would receive only about 22 percent of the member's average basic pay.

The committee recommends that the contribution to and the annuity from the Survivor Benefit Plan continue to be based on retired pay amounts computed using an unreduced multiplier. In other words, a member who retired with 20 years of service would continue to contribute to the plan and the survivor would receive a benefit from the plan based on a multiplier of 50 percent even though the member was receiving retired pay based on a multiplier of 40 percent. This recommendation will maintain the integrity of the Survivor Benefit Plan for nondisability retirees and will keep the plan consistent among nondisability, reserve and disability retirees.

BACKGROUND

This section of the report outlines the circumstances that led to the proposals for changing the uniformed services retirement system.

RETIREMENT SYSTEM FUNDING

Accrual funding

In the past, appropriations were provided each year to cover the military retired pay actually paid to retirees in that year.

Consequently, when structural changes to the retirement system were proposed, assuming that changes would not apply to individuals already retired (whose retired pay accounted for almost the entire retired pay budget in the near term) and would apply only marginally to those on active duty who were nearing retirement, no significant change in the cost of the system would be achieved for 10 or 20 years in the future. Any offsetting improvements, such as earlier vesting or a lump sum early withdrawal option, would, in fact, result in higher costs in the near term, thus further reducing the prospects for action on systemic reforms.

Beginning in fiscal year 1985, however, a revised accounting system for military retirement was implemented; a new retirement fund was established outside of the defense budget. The Department of Defense is required to set aside in the fund a percentage of its military payroll sufficient to pay for the projected retirement benefits earned in that year based on the benefits for the group of individuals who join the military that year (but who will retire in the future).

In other words, until fiscal year 1985, the Department of Defense had to pay for retirement benefits earned in the past but due in the present; now the department must pay for retirement benefits as they are earned. The new method of budgeting for military retirement is similar to the "normal cost" calculations made by private sector employers.

Current accrual charge

The amount that needs to be placed in the fund each year is equal to approximately 50 percent of the basic pay appropriated for that year. Payments to the fund are to be made from the military personnel appropriations. These appropriations include basic pay, allowances, special and incentive pays, and permanent change of station travel.

For fiscal year 1986, the Department of Defense requested $73.4 billion for the military personnel appropriation, of which $35.9 billion was for basic pay and $18.2 billion was for the accrual charge.

Implication of retirement reform

A permanent change to the military retirement system carries with it a change to the accrual charge. In other words, a reduction in future benefits means that less money needs to be set aside to pay for benefits for those affected by the change.

The impact of accrual accounting and of retirement reform on the Federal budget and its component parts varies. Within the framework of the *Federal budget,* only change in the amount of retired pay actually being paid to recipients in a given year will affect outlays. Consequently, any change to the retirement system that applies only to new military recruits, for example, has no effect on outlays until the affected service members actually retire and draw retired pay under the provisions of the revised system. As noted above, however, such a change would have an immediate impact on the accrual charge (and on budget authority from the perspective of the Federal budget).

Within the framework of the *defense budget,* however, the impact is considerably different. The accrual charge each year is reflected as part of the budget authority for defense. Further, because the fund resides elsewhere in the Federal budget, when the Department of Defense transfers the accrual charge to the fund (as required by law), the transfer creates an outlay from the defense budget. (Of course, the transfer also creates a receipt to the fund, located elsewhere in the Federal budget. Within the Federal budget, the outlay from the defense budget and the receipt to the fund cancel, leaving no net impact on the Federal budget.) In the case of the defense budget, a permanent change to the military retirement system would affect both budget authority and outlays—less money would be needed to pay for future benefits if the value of the retirement system were reduced in the future (budget authority) and less money would, consequently, be transferred to the fund (outlays).

In summary, under the accrual accounting system, a change to the military retirement system that decreased the value of military retired pay for new entrants would immediately decrease defense budget authority and outlays; such a change would also decrease Federal budget authority but would have no effect on overall Federal outlays (or the deficit). The only changes that would affect Federal outlays in the near-term are changes in the structure of military retirement annuities for those members already retired (including changes in the cost-of-living adjustment) and, to a substantially lesser extent, changes in the structure of benefits for those on active duty who are near retirement at the time of the change.

Changing the retirement system—the beginning

Under the current system of budgeting, a permanent change in retirement benefits would lead to a change in the accrual charge which, in turn, would lead to a change in the amount appropriated for military personnel. For a variety of reasons, however, structural changes to the retirement system have failed to reach fruition following the normal course (change leading to reductions in the accrual charge). Consequently, the Congress relied on an approach that worked in the opposite direction: a substantial reduction was made in the funds available for military personnel in fiscal year 1986 in order to provide a significant incentive to reduce the accrual charge and, in turn, to change the retirement system.

The specific proposal

Section 666 of the Defense Authorization Act for fiscal year 1986 (Public Law 99-145) placed a ceiling on the total dollars available to be obligated for basic pay and the payment to the retirement fund in fiscal year 1986. As mentioned above, a total of $54 billion was requested for these two accounts in fiscal year 1986.

The ceiling represented a reduction of $2.9 billion in the President's budget for defense. Current law requires the Department of Defense to pay the accrual charge, and the remainder is used to pay the force. No responsible alternative existed but to recommend legislation to change the retirement system and, thereby, reduce the accrual charge.

No specific change to the retirement system as proposed in the Defense Authorization Act. Instead, section 667 of the Act directed the Secretary of Defense to submit two legislative proposals that would change the uniformed services nondisability retirement system in such a way as to reduce the accrual charge by the amount necessary to meet the ceiling. One of the changes was required to consist only of changes in the uniformed services retirement system other than changes in the procedure for periodic cost-of-living adjustments in retired pay. Each proposal was to reduce the accrual charge by $2.9 billion.

The Secretary of Defense was also directed to develop proposals that would apply only to individuals who first become associated with the uniformed services after the change became effective and that consideration be given in the design of the proposed change to incentives for longer service for retirement-eligible individuals.

DEPARTMENT OF DEFENSE PROPOSALS

In accordance with the direction in the Defense Authorization Act for fiscal year 1986, the Department of Defense submitted two proposals for changing the uniformed services retirement system.

The department proposed a *structural change* composed of a five-year averaging period for all retirees (instead of the three-year period that applies to individuals who entered on or after September 7, 1980) and a modest change in the multiplier.

The base for computing retired pay would be the average basic pay received during the five years the member received the largest amount of basic pay. Usually, the highest five years would be the last five years served on active duty.

The formula for the multiplier under this option would be 2.15 percent for each year of service up to 20 and 3.2 percent for each year of service between 20 and 30. The multiplier at 20 years of service would be 43 percent. In other words, the member would receive 43 percent of the high-5 average basic pay. The multiplier at 30 years of service would be 75 percent, the same as under the current system, although the multiplier would be applied to the high-5 average basic pay instead of the high-3 average basic pay.

The department also proposed a *mixed option* composed of a change to the cost-of-living adjustment and an even more modest change in the multiplier.

The cost-of-living adjustment would provide an annual increase of one percentage point less than the rate of inflation (CPI minus 1) for life, with a restoral at the point in time the member would have reached 40 years of service. In other words, if inflation, as measured by the consumer price index, were 4 percent, the adjustment would be 3 percent. The purchasing power of retired pay would be restored at the point in time the member would have reached 40 years of service (generally around age 58 to 63). Thereafter, the adjustment would continue to provide an annual increase of one percentage point less than inflation.

The formula for the multiplier under this option would be 2.2 percent for each year of service up to 20 and 3.1 percent for each year of service between 20 and 30. The multiplier at 20 years of service would be 44 percent. The multiplier for 30 years of service would be 75 percent.

The structural option would save approximately $2.9 billion, almost to the penny; the mixed option would save only slightly over $2.8 billion.

The committee had hoped to be able to adopt one of the options proposed by the Department of Defense, but each exhibits problems.

The formula for the multipliers under either option would be complex. A retirement system should exhibit characteristics that are easy to remember. It affords a substantial portion of total compensation received by an employee, even in other public and in private-sector plans, and it should be structured utilize fully its incentive value. In particular, the formula should be simple and provide reasonably round multipliers at critical career points, such as 20 years of service.

A multiplier of 40 percent is simple. "Stay for 20, get 40!" will replace "Half pay for 20" as the retirement hook. It certainly is more catchy than "Stay for 20, get 43" or "Forty-three percent of pay for 20."

In addition, in the committee's judgment, a multiplier of 43 percent for 20 years of service will continue to draw criticism focused on the liberality of the uniformed services retirement system—particularly when combined with the availability of an immediate annuity at age 40 or earlier. Any change should serve to reduce the likelihood that the issue will need to be addressed again in the near future.

The proposal to extend the averaging period from three to five years for all retirees would reduce the benefit both for those who retire after 20 years and for those who retire after 30 years. Although it would reduce the benefit, it would serve no objective other than cost saving. Specifically, it would provide no additional incentive to remain on active duty beyond 20 years of service.

The restoral in the cost-of-living adjustment tied to years of service provides increased purchasing power at different ages unrelated to when the member actually retires from the work force. For example, for a member who joins the uniformed services at age 35, the restoral would not occur until age 75 (approximately a service member's life expectancy).

All the options considered have about the same effect on the career force. In fact, the committee's recommendation would affect the size of the career force the least. In addition, both of the department's options have a negative effect on the size of the career force with over 20 years of service. The committee's recommendations would increase the size of the career force with over 20 years of service—the most experienced part of the force—by over 12 percent because of the relatively greater reward for staying beyond 20 years.

ANALYSIS OF CHANGES TO THE RETIREMENT SYSTEM

The committee considered a wide variety of options for changing the uniformed services retirement system. The evaluation focused on the impact of the options from the perspective of cost and force composition. This section summarizes the committee's review. The supporting analysis is contained in the appendix.

SCOPE OF THE ANALYSIS

The analysis described below was performed by investigating the effects of varying three characteristics of the retirement system: the multiplier, social security integration, and cost-of-living adjustment formulas.

Two variations were considered with regard to the multipliers: the permanency of the reduction and the magnitude of the reduction. Multipliers were reduced on a permanent basis (for example, members who retire after 20 years of service would receive 40 percent for the rest of their lives) or on a temporary basis (for example, members who retire after 20 years of service would receive 40 percent until the point in time when they reached age 60 and then they would receive 50 percent for the rest of their lives). In addition, multipliers at the time of retirement were either 35 percent or 40 percent for members with 20 years of service. Regardless of the multiplier at 20 years of service, the multipliers were increased with increasing years of service up to a multiplier of 75 percent for 30 years of service (the same as under the current system). Therefore, a total of four discrete options were considered with regard to the form of the multipliers.

The four options can be characterized as:

—40 percent for 20 years of service with a restoral to the current levels at age 60

—35 percent for 20 years of service with a restoral to the current levels at age 60

—40 percent for 20 years of service with *no* restoral to the current levels at age 60

—35 percent for 20 years of service with *no* restoral to the current levels at age 60

The effect of a social security offset was investigated by considering four variations: no reduction in retired pay at age 65, a reduction of 5 percent in the retirement annuity at age 65 (i.e., a reduction from, say, 50 percent to 47.5 percent), a reduction of 10 percent, and a reduction of 15 percent.

The effect of a change to the cost-of-living adjustment mechanism was investigated by considering three variations: no change to the present system, CPI minus 1 until age 60 with a restoral and full CPI thereafter, and CPI minus 1 for life with a one-time restoral at age 60.

These variations provide a range that covers most of the alternatives that were being considered by the Department of Defense during its deliberations.

A total of 48 separate options were evaluated by combining variations from each of the categories. In addition, the specific proposals submitted by the Department of Defense were evaluated because they are not reflected exactly by any of the above combinations, and they needed to be placed in the same framework as the other options in order to ensure proper comparisons (because of the different baselines and assumptions used).

SUMMARY OF OBSERVATIONS

Based on the analysis outlined in the appendix, several general conclusions were drawn.

When the impact of changes is viewed in the *context of the overall force,* very little difference is evidenced between options.

However, options producing the same savings can exhibit significant differences in their impact on *specific portions* of the force.

Modifications to the cost-of-living adjustment have a substantial, adverse effect on the 21 to 30 years of service group—particularly for changes affecting retired pay before age 60.

The impact of a *social security offset* is relatively small and limited almost entirely to the 21 to 30 years of service category.

With regard to *changing the multipliers:*

—Decreasing the multiplier for 20 years of service—relative to the multiplier for 30 years of service—has a generally positive effect on the 21 to 30 years of service category and a generally negative effect on the 10 to 20 years of service category.

- Restoring the multiplier at age 60 has very little favorable impact on the force composition relative to the savings foregone.

RESULTS OF THE ANALYSIS

This section describes the framework used to evaluate the range of alternatives considered and describes in detail the analysis as it applies to the Department of Defense proposals and to the committee recommendation.

An overall view

Opponents of changing the military retirement system attempt to focus attention on the impact that any change is predicted to have on the composition of the force—particularly the career force. Predicted losses in the tens of thousands can not be disregarded when evaluating options for change. The key, however, to an accurate assessment of the implications of a change in the force composition is the perspective from which the potential impacts are viewed.

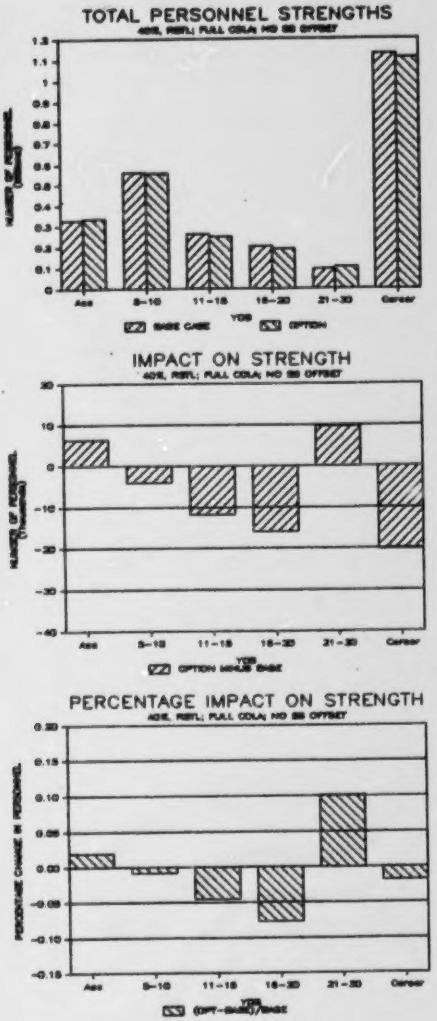
The range of options considered affords a proper perspective. Nearly the entire range of impacts that are estimated to occur is captured by considering the options that result in the smallest and the largest savings. The smallest savings would be achieved by the option that provides for a multiplier of 40 percent for 20 years of service restored to 50 percent when the retiree reaches age 60 and that provides for no other changes. This option would save $1.52 billion.

Figure 1 portrays the estimated impact of the option on the force in three charts. The upper chart compares the force composition of the baseline with the force composition of the option in several categories: accessions; total personnel with 5 to 10 years of service, 11 to 15 years of service, 16 to 20 years of service, 21 to 30 years of service; and total career force. The middle chart expresses the comparison in terms of the *differences* between the option and the baseline for each of the categories. The bottom chart portrays the differences as a *percentage* of the baseline.

The largest savings would be achieved by the option that provides for a multiplier of 35 percent for 20 years of service with no restoral at age 60, CPI minus 1 for life with a restoral at age 60, and a 15 percent social security offset. This option would save $5.19 billion. The impact of this option on the force composition is portrayed in Figure 2.

Opponents of change focus attention on the middle chart. In Figure 1, the impact of the change would be characterized as a loss of about 20,000 careerists. In Figure 2, the impact would be characterized as a loss of approximately 42,000 careerists. On the basis of this assessment alone, the impact—especially of the second option—appears substantial. Of course, a potential loss of 42,000 careerists—or even 20,000 careerists—cannot be treated lightly; however, the implications of such losses can be better understood by considering them in the context of the total force.

FIGURE 1



TOTAL PERSONNEL STRENGTHS

40%, RSTL; FULL COLA; NO SS OFFSET

IMPACT ON STRENGTH

40%, RSTL; FULL COLA; NO SS OFFSET

PERCENTAGE IMPACT ON STRENGTH

40%, RSTL; FULL COLA; NO SS OFFSET

BEST COPY AVAILABLE

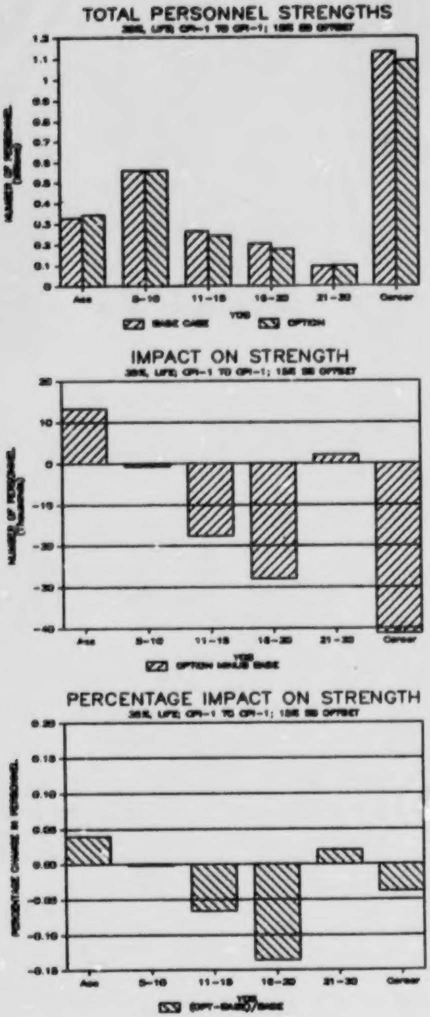

TOTAL PERSONNEL STRENGTHS
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
NUMBER OF PERSONNEL (Millions)
Acc
5-10
11-15
16-20
21-30
Career
YOS
BASE CASE
OPTION
IMPACT ON STRENGTH
20
10
0
-10
-20
-30
-40
NUMBER OF PERSONNEL (Thousands)
Acc
5-10
11-15
16-20
21-30
Career
YOS
OPTION MINUS BASE
PERCENTAGE IMPACT ON STRENGTH
0.20
0.15
0.10
0.05
0.00
-0.05
-0.10
-0.15
PERCENTAGE CHANGE IN PERSONNEL
Acc
5-10
11-15
16-20
21-30
Career
YOS
(OPT-BASE)/BASE

FIGURE 2

The bottom charts in Figures 1 and 2 place the losses in the context of the whole force. For the first option, the loss of 20,000 careerists would reduce the overall career force by slightly less than 2 percent. The relative impact varies depending on the years of service category: the 11 to 15 years of service group would decrease by slightly more than 4 percent, and the 16 to 20 years of service group would decrease by nearly 8 percent. The 21 to 30 years of service group would *increase* by approximately 10 percent. Accession requirements would increase by approximately 2 percent.

For the second option, the loss of 42,000 careerists would reduce the overall career force by nearly 4 percent. The 11 to 15 years of service group would decrease by more than 6 percent, and the 16 to 20 years of service group by more than 13 percent. The 21 to 30 years of service group would *increase* by about 2 percent. Accession requirements would increase by about 4 percent.

To look at the top chart in Figure 2 and to conclude that the losses that are predicted would substantially inhibit the services from effectively carrying out their missions is difficult. Clearly, if all the losses were in critical skills, the problem could be exacerbated. But a selective application of special pays and bonuses could easily solve that problem—especially if the problem were addressed before it got out of hand.

Further, the career force has increased, on average, by 3 percent per year since 1978 (and by 13 percent since 1980 alone) and is expected to continue to grow in the future—even if the retirement system is changed. The total change in the career force resulting from the change in the retirement system is of the same order of magnitude as the historical *annual* change in the career force. The services have managed the change in the past and can undoubtedly manage the change on a one-time basis in the future.

Another measure of the overall impact is found in the average years of service calculated for each option. For the first option, the average years of service of the resultant force is calculated to be 11.96; for the second option, the average years of service is calculated to be 11.78. The average years of service for the baseline force is 11.88. The maximum adverse impact on the average years of service for the range of options considered would be an erosion of less than 1.5 *months* of experience. The vast majority of options considered would have a smaller impact—in fact, the options retaining a full cost-of-living adjustment would *increase* the average years of service, regardless of the change to the multiplier and the amount of social security offset.

When the impact of changes is viewed in the context of the overall force, very little difference is evidenced among options. Although the impact on the career force may appear large when viewed in isolation, the size of the career force itself must be kept in mind. In the context of the overall force, the difference is only slightly noticeable.

Impact of the specific proposals

The manpower impact of the two options proposed by the department and of the committee recommendation is shown in Figures 3, 4 and 5.

For the DOD mixed option (Figure 3), the loss of 27,000 careerists would reduce the overall career force by approximately 2.4 percent. The relative impact varies depending on the years of service category: the 11 to 15 years of service group would decrease by slightly less than 4 percent, and the 16 to 20 years of service group would decrease by about 7 percent. The 21 to 30 years of service group would decrease by approximately 3.6 percent. Accession requirements would increase by approximately 2.5 percent.

For the DOD structural option (Figure 4), the loss of 34,000 careerists would reduce the overall career force by over 3 percent. The 11 to 15 years of service group would decrease by nearly 4 percent, and the 16 to 20 years of service group by almost 8 percent. The 21 to 30 years of service group would decrease by over 10 percent. Accession requirements would increase by about 3 percent.

For the committee recommendation (Figure 5), the loss of 27,000 careerists would reduce the overall career force by approximately 2.4 percent. The 11 to 15 years of service group would decrease by over 5 percent, and the 16 to 20 years of service group by about 10 percent. The 21 to 30 years of service group would, however, exhibit an increase of over 12 percent. Accession requirements would increase by about 2.6 percent.

Both options proposed by the Department of Defense would decrease the average years of service—the structural option would result in the largest decrease of any option considered (2.5 months). The committee's recommendation would increase the average by slightly over one month.

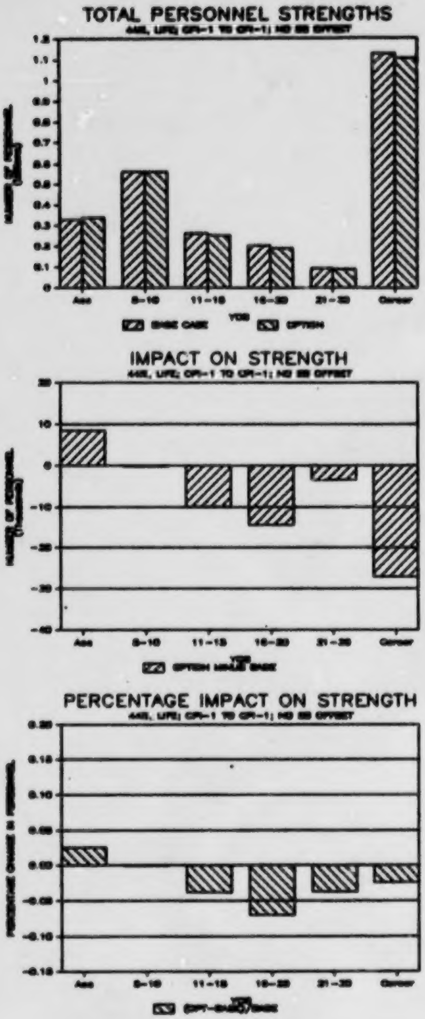
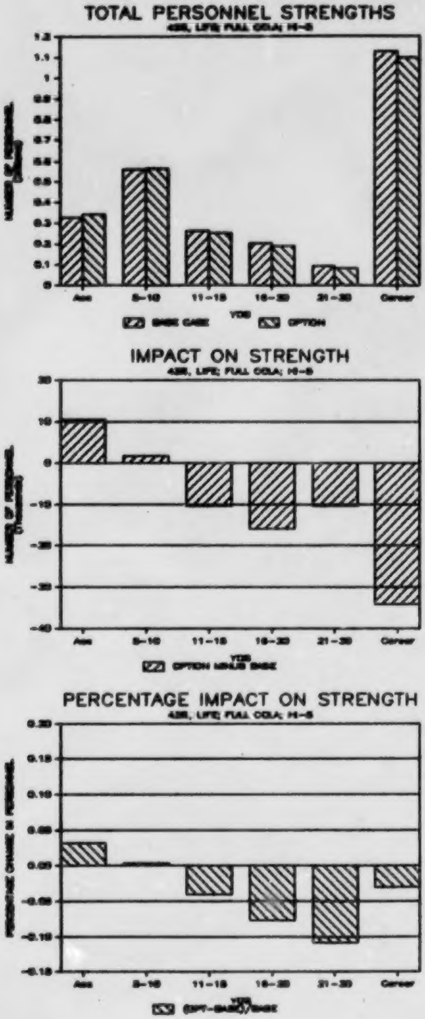

TOTAL PERSONNEL STRENGTHS
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
Acc
6-10
11-15
16-20
21-30
Career
YOS
BASE CASE
OPTION
IMPACT ON STRENGTH
20
10
0
-10
-20
-30
-40
Acc
6-10
11-15
16-20
21-30
Career
YOS
OPTION MINUS BASE
PERCENTAGE IMPACT ON STRENGTH
0.20
0.15
0.10
0.05
0.00
-0.05
-0.10
-0.15
Acc
6-10
11-15
16-20
21-30
Career
YOS
(OPT-BASE)/BASE

FIGURE 3

FIGURE 4



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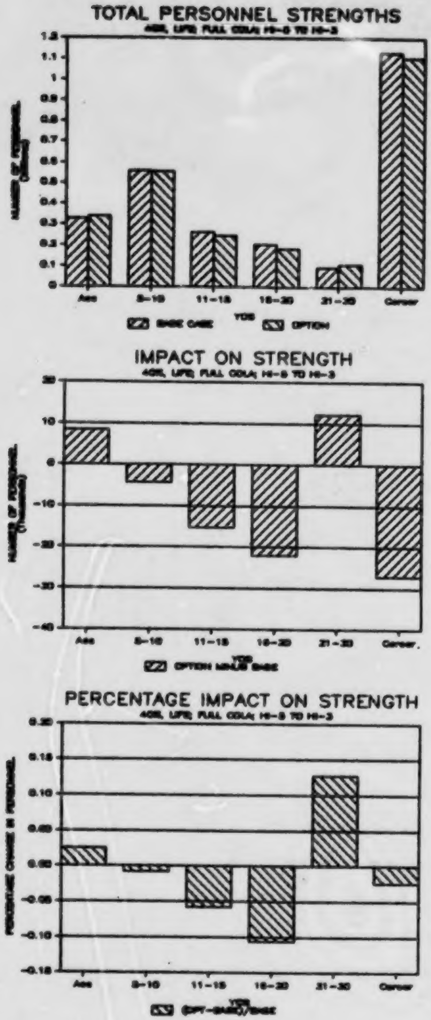
TOTAL PERSONNEL STRENGTHS
40S, LIFE; FULL COLA; HI-5 TO HI-3
NUMBER OF PERSONNEL (Millions)
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
Acc
5-10
11-15
16-20
21-30
Career
YOS
BASE CASE
OPTION
IMPACT ON STRENGTH
40S, LIFE; FULL COLA; HI-5 TO HI-3
NUMBER OF PERSONNEL (Thousands)
20
10
0
-10
-20
-30
-40
Acc
5-10
11-15
16-20
21-30
Career.
YOS
OPTION MINUS BASE
PERCENTAGE IMPACT ON STRENGTH
40S, LIFE; FULL COLA; HI-5 TO HI-3
PERCENTAGE CHANGE IN PERSONNEL
0.20
0.15
0.10
0.05
0.00
-0.05
-0.10
-0.15
Acc
5-10
11-15
16-20
21-30
Career
YOS
(OPT-BASE)/BASE

FIGURE 5

SUMMARY

The analysis in this section of the report and in the appendix suggests that attempts to choose between specific alternatives on the basis of impacts on the force composition may subject the decision to the criticism that it is "measuring with a micrometer, marking with chalk, and cutting with an ax." The ability to predict the impact of a change to the retirement system—an impact that will not *begin* to become apparent for at least a decade and that will not become fully developed for two additional decades—does not lie within the capabilities of existing models.

In addition, what the force *should* look like two or three decades in the future is subject to substantial disagreement. In fact, the uncertainties underlying each part of the analysis could easily account for far more variation in the results than the differences attributable to a change to the retirement system. So how should the results describing above be used in the deliberations on changing the retirement system?

The committee suggests that the retirement system should be revised to provide a system that makes sense to the service member and the public at large, that is easy to understand, that provides favorable incentives for the highest quality service members to remain on active duty, that is easy to administer, and that will provide a stable element of compensation for the indefinite future. The retirement system should not be revised to achieve specific force profiles (especially when the specific profiles are unknown). This should not imply that the effect on the force, to the extent, it can be estimated, should be discounted entirely. It should imply only that such an effect should be a secondary consideration. Some useful insights can be gained if the conclusions suggested above are kept in their analytic context.

UNAUTHORIZED APPROPRIATIONS

DESCRIPTION OF THE PROBLEM

The generally understood and accepted procedure in the Congress for providing resources to the various agencies of the Executive branch involves initial enactment of authorizing legislation, followed by the enactment of appropriating legislation. The authorizing legislation establishes the overall priorities for the agency by authorizing appropriations up to a specified level for specific purposes. The appropriating legislation provides the spending authority—subject to the authorization ceilings—for the agency to carry out the programs, projects and activities previously authorized.

Intended to occur sequentially the annual authorization and appropriation processes have—especially in recent years—overlapped to an increasing degree for a variety of reasons. As a result, the enactment of appropriating legislation has coincided with, and in some instances overtaken, final action on authorizing legislation. This compression in the process has resulted in instances where the level of appropriations has exceeded the authorization provided.

The committee understands that circumstances change between the time that the authorizing legislation and the appropriating legislation is considered. In addition, for a budget request of the magnitude of those submitted, different committees will obtain different information leading to different conclusions. Finally, because of the increasingly contemporaneous action, the authorizing and apropriating committees may experience communication difficulties as each attempts to finalize its respective legislation under extreme time pressure.

Such explanations have been adedquate, in the past, to explain a relatively minor number of instances in which the appropriations have exceeded authorized amounts. However, the magnitude of the discontinuity in the normal process affecting the defense budget for fiscal year 1986 defies such explanations.

Under normal circumstances, the committee has accommodated instances of unauthorized appropriations through the established reprogramming process. Such an approach was viable in the past because the unauthorized appropriations represented only marginal changes to the priorities established by the Congress as a result of its action on the authorizing legislation. Unfortunately, the magnitude of the excess appropriations has been growing in recent years and, in the fiscal year 1986 legislation, has reached a level that requires further legislative action by the Congress, as a whole, rather than delegation of the authority to the committees to be carried out under the procedures of reprogramming.

The problem of appropriations in excess of authorization appears in two forms: instances where the appropriations provided for the program, project or activity (usually at the report level of detail) exceed the authorization for the program, project or activity and instances where the appropriations provided in legislative language (usually at the account level of detail) exceed the authorization provided in legislative language.

In the first instance, approximately $5.6 billion was appropriated for about 100 programs, projects and activities above the levels authorized.

The committee believes that none of these excess appropriations can be obligated or expended unless provided for through reprogramming procedures (reprogramming unused authorization from programs, projects and activities for which appropriations were not fully provided to the programs, projects and activities for which excess appropriations exist) or formally authorized by subsequent legislation. The committee bases its position on section 138 of title 10, United States Code, which states in pertinent part "no funds may be . . . obligated or expended . . . unless . . . specifically authorized by law."

However, the Department of Defense argues that because the amounts have been appropriated, they must be obligated or a rescission must be submitted as a result of the requirements of the Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344).

To date, these conflicting viewpoints have been accommodated using the reprogramming process.

In the second instance, in about 20 categories, appropriation totals contained in the Defense Appropriations Act for fiscal year 1986 exceeded the totals contained in the Defense Authorization Act for fiscal year 1986. The excess appropriations of this type amount to approximately $2.2 billion. A large degree of overlap at the level of program, project and activity exists between this type of excess appropriations and the first type.

Section 8109 of the Defense Appropriation Act for fiscal year 1986 specifies that none of the funds appropriated by the Act "may be obligated or expended for any purpose unless such funds have been authorized to be appropriated for such purpose by law . . ." This section has been interpreted to apply only to the amount of excess appropriations at the level of the bill totals. As a result, general agreement exists that these excess appropriations may not be obligated unless provided for in subsequent law.

SUMMARY OF COMMITTEE RECOMMENDATIONS

LEGISLATIVE APPROACH

The committee recommends a legislative approach for resolving the issue described above. Title IV of the bill takes the following form:

(1) A covered amount is defined as the excess of the amount appropriated above the amount authorized for a program, project or activity.

(2) Obligation and expenditure of a covered amount is prohibited for any purpose except as provided in the bill or as provided by law thereafter.

(3) The portion of the covered amounts recommended for approval is specified and the programs, projects and activities approved are listed, together with the total amount of authorization provided.

(4) The authorization levels contained in the Defense Authorization Act for fiscal year 1986 are increased for certain programs to reflect the committee's recommendations in those cases where excess appropriations at the bill level of detail were approved.

(5) Programs, projects and activities for which the covered amounts were not approved by the committee are listed.

The excess appropriations that are not recommended for approval would, in theory, continue to exist, but they could not be used as the source of a reprogramming or otherwise obligated or expended unless specifically authorized in a subsequent law. The appropriations would continue as part of the total of unobligated balances and eventually lapse.

The approach outlined above and the effect of the committee's recommendations would permit the obligation and expenditure of funds for an approved program, project or activity at the level of the amount appropriated less the amount of any reduction taken by the department (as a result of direction to assess an undistributed reduction) and the amount of the sequestration applied to the program, project or activity. If the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) were struck down by the Supreme Court, in the absence of the proposed legislation, the sequestered amounts would again become available for obligation. However, the legislation proposed would preclude the sequestered amounts from being obligated even if the Balanced Budget and Emergency Deficit Control Act were overturned.

PROGRAMMATIC RECOMMENDATIONS

Table 1 lists the items identified as programs (both at the report level of detail and the bill level of detail) for which appropriations exceed the level of authorization.

TABLE 1—RECOMMENDATIONS CONCERNING UNAUTHORIZED APPROPRIATIONS

$ in Millions

	Auth	Prior to Gramm-Rudman Approp	Prior to Gramm-Rudman Diff	FY1986 Base	Amount of Sequester	Recommended Level	Increase in Auth	Increase in Bill Totals
PROCUREMENT								
ARMY								
Items Agreed To								
-- Follow-on air def eqpt	$0.00	$150.00	$150.00	$150.00	$7.35	$142.65	$142.65	
-- Mortar ammo	$0.00	$96.20	$96.20	$96.20	$4.71	$91.49	$91.49	
-- War reserve ammo	$0.00	$200.00	$200.00	$200.00	$9.80	$190.20	$190.20	
-- SHAP	$0.00	$15.40	$15.40	$15.40	$0.76	$14.65	$14.65	
-- AFATADS	$0.00	$25.57	$25.57	$25.57	$1.25	$24.32	$24.32	
-- Boat, bridge erection	$0.00	$25.40	$25.40	$0.00	$0.00	$25.40	$25.40	
Totals	$0.00	$512.57	$512.57		$23.87	$488.70	$488.70	
Items Not Agreed To								
-- AH-1S attack (Cobra Tow)	$104.50	$134.50	$30.00	$128.90	$6.35	$104.50	$0.00	
-- AHIP	$158.80	$174.70	$15.90	$168.20	$8.24	$158.80	$0.00	
-- Stinger missiles	$244.10	$258.50	$14.40	$246.60	$12.08	$244.10	$0.00	
-- M577A2	$23.60	$33.60	$10.00	$30.60	$1.50	$23.60	$0.00	
-- M113	$82.90	$122.90	$40.00	$117.70	$5.77	$82.90	$0.00	
-- M88 recovery vehicles	$188.80	$211.40	$22.60	$199.40	$9.77	$188.80	$0.00	
-- 120 mm mortar	$0.00	$5.00	$5.00	$5.00	$0.25	$0.00	$0.00	
-- AT-4 ltwgt multipurpose sys	$41.60	$57.20	$17.60	$58.20	$2.85	$41.60	$0.00	
-- Chem demil facility	$49.30	$81.30	$32.00	$81.30	$3.98	$49.30	$0.00	
-- Prodn base modernization	$0.00	$103.10	$103.10	$103.10	$5.05	$0.00	$0.00	
-- SOF comm eqpt	$7.30	$11.33	$4.03	$11.33	$0.56	$7.30	$0.00	
-- KG-84	$21.80	$31.80	$10.00	$31.80	$1.56	$21.80	$0.00	
-- AFRTS (audio visual)	$4.30	$7.80	$3.50	$7.80	$0.38	$4.30	$0.00	
-- Depl med sys	$84.40	$96.70	$12.30	$96.70	$4.74	$84.40	$0.00	
-- CBT Supp eqpt med	$77.50	$98.70	$21.20	$90.50	$4.44	$77.50	$0.00	
Totals	$1,088.90	$1,430.53	$341.63		$67.51	$1,088.90	$0.00	
Total, Army	$1,088.90	$1,943.10	$854.20		$91.38	$1,577.60	$488.70	

TABLE 1--RECOMMENDATIONS CONCERNING UNAUTHORIZED APPROPRIATIONS (CON'T)

$ in Millions

	Auth	Prior to Gramm-Rudman Approp	Prior to Gramm-Rudman Diff	FY1986 Base	Amount of Sequester	Recommended Level	Increase in Auth	Increase in Bill Totals
NAVY								
Items Agreed To								
-- F-14A	$553.60	$649.08	$95.48	$622.25	$31.42	$590.83	$37.23	
-- P-3 mod	$152.90	$396.09	$243.19	$379.72	$18.61	$361.11	$208.21	
-- BB reactivation	$53.50	$469.00	$415.50	$53.50	$2.62	$466.38	$412.88	$412.88
-- MCM mine countermeasures ship	$167.10	$197.20	$30.10	$167.10	$8.19	$189.01	$21.91	$21.91
-- MCM cost growth	$0.00	$97.00	$97.00	$0.00	$0.00	$97.00	$97.00	$97.00
-- ARTB training ship (conv)	$26.50	$175.40	$148.90	$26.50	$1.30	$174.10	$147.60	$147.60
-- Service craft	$37.70	$62.70	$25.00	$37.70	$1.85	$60.85	$23.15	$23.15
-- AN\SQR-17	$15.20	$22.00	$6.80	$13.50	$0.66	$21.34	$6.14	
-- Proc, MC gen'l incr	$0.00	$25.00	$25.00	$25.00	$11.74	$13.26	$13.26	
Totals	$1,006.50	$2,093.47	$1,086.97		$76.39	$1,973.89	$967.39	
Items Not Agreed To								
-- Refueling tanker mod	$0.00	$110.00	$110.00	$105.56	$5.17	$0.00	$0.00	
-- Wpns Industrial Fac	$18.90	$24.90	$6.00	$23.60	$1.16	$18.90	$0.00	
-- War reserve ammo	$0.00	$70.00	$70.00	$0.00	$0.00	$0.00	$0.00	
-- SSN-688	$2,113.20	$2,123.20	$10.00	$2,054.50	$100.67	$2,113.20	$0.00	
-- Undistr red'n not taken,Shpbldg	$0.00	$112.70	$112.70	$0.00	$0.00	$0.00	$0.00	
-- Medical support eqpt	$17.20	$61.40	$44.20	$17.22	$0.84	$17.20	$0.00	
-- Undistr red'n not taken, OPN	$0.00	$295.00	$295.00	$0.00	$0.00	$0.00	$0.00	
-- Coastal defense augmentation	$0.00	$235.00	$235.00	$235.00	$11.52	$0.00	$0.00	
Totals	$2,149.30	$3,032.20	$882.90		$119.37	$2,149.30	$0.00	
Total, Navy	$3,155.80	$5,125.67	$1,969.87		$195.75	$4,123.19	$967.39	

TABLE 1--RECOMMENDATIONS CONCERNING UNAUTHORIZED APPROPRIATIONS (CON'T)

$ in Millions

		Prior to Gramm-Rudman						
	Auth	Approp	Diff	FY1986 Base	Amount of Sequester	Recommended Level	Increase in Auth	Increase in Bill Totals
AIR FORCE								
Items Agreed To								
-- Air defense competition	$0.00	$200.00	$200.00	$192.00	$9.41	$182.59	$182.59	
-- AC-130H drug interdiction	$0.00	$35.00	$35.00	$33.40	$1.64	$31.76	$31.76	
Totals	$0.00	$235.00	$235.00		$11.05	$214.36	$214.36	
Items Not Agreed To								
-- Air Force One replat	$0.00	$280.00	$280.00	$280.00	$13.72	$0.00	$0.00	
-- KC-10	$208.20	$226.80	$18.60	$219.00	$11.01	$208.20	$0.00	
-- B-1B mods	$5.10	$31.40	$26.30	$31.40	$1.54	$5.10	$0.00	
-- B-52 mods	$428.60	$451.20	$22.60	$416.20	$20.86	$428.60	$0.00	
-- A-7 mods	$3.40	$60.00	$56.60	$60.00	$2.94	$3.40	$0.00	
-- F/RF-4 mods (including +92.0 for FA INS/HUD upgrade)	$174.20	$190.10	$15.90	$188.00	$9.21	$174.20 $0.00	$0.00	
-- Airborne comm post mod	$0.00	$50.00	$50.00	$50.00	$0.00	$0.00	$0.00	
-- AMRAAM adv proc	$30.00	$59.40	$29.40	$59.40	$3.29	$30.00	$0.00	
-- Rapier (Turkey)	$3.60	$7.60	$4.00	$7.58	$0.42	$3.60	$0.00	
-- Minuteman mod	$13.50	$43.40	$29.90	$38.50	$2.40	$13.50	$0.00	
-- War reserve ammo, AF	$0.00	$40.00	$40.00	$0.00	$0.00	$0.00	$0.00	
-- Intell data handling sys	$23.00	$29.43	$5.63	$29.43	$1.44	$23.00	$0.00	
-- Med readiness, AF	$120.00	$135.74	$15.74	$135.74	$6.65	$120.00	$0.00	
Totals	$1,010.40	$1,605.07	$594.67		$73.48	$1,010.40	$0.00	
Total, Air Force	$1,010.40	$1,840.07	$829.67		$84.52	$1,224.76	$214.36	

TABLE 1--RECOMMENDATIONS CONCERNING UNAUTHORIZED APPROPRIATIONS (CON'T)

$ in Millions

		Prior to Gramm-Rudman						
	Auth	Approp	Diff	FY1986 Base	Amount of Sequester	Recommended Level	Increase in Auth	Increase in Bill Totals
DEFENSE AGENCIES								
Items Agreed To								
-- Other DIS eqpt	$0.00	$5.38	$5.38	$5.38	$0.26	$5.12	$5.12	
Totals	$0.00	$5.38	$5.38		$0.26	$5.12	$5.12	
Items Not Agreed To								
Totals								
Total, Defense Agencies	$0.00	$5.38	$5.38		$0.26	$5.12	$5.12	
ARMY RESERVE								
Items Agreed To								
Totals								
Items Not Agreed To								
-- Miscellaneous equipment	$0.00	$350.00	$350.00	$0.00	$0.00	$0.00	$0.00	
-- Truck SLEP	$0.00	$15.00	$15.00	$0.00	$0.00	$0.00	$0.00	
Totals	$0.00	$365.00	$365.00		$0.00	$0.00	$0.00	
Total, Army Reserve	$0.00	$365.00	$365.00		$0.00	$0.00	$0.00	
NAVY RESERVE								
Items Agreed To								
Totals								
Items Not Agreed To								
-- Miscellaneous eqpmt	$20.00	$75.00	$55.00	$20.00	$0.98	$20.00	$0.00	
Totals	$20.00	$75.00	$55.00		$0.98	$20.00	$0.00	
Total, Navy Reserve	$20.00	$75.00	$55.00		$0.98	$20.00	$0.00	
MARINE CORPS RESERVE								
Items Agreed To								
Totals								
Items Not Agreed To								
-- Miscellaneous equipment	$20.00	$30.00	$10.00	$20.00	$0.98	$20.00	$0.00	
Totals	$20.00	$30.00	$10.00		$0.98	$20.00	$0.00	
Total, Marine Corps Reserve	$20.00	$30.00	$10.00		$0.98	$20.00	$0.00	

TABLE 1--RECOMMENDATIONS CONCERNING UNAUTHORIZED APPROPRIATIONS (CON'T)

$ in Millions

	Prior to Gramm-Rudman			FY1986	Amount		Increase	Increase
	Auth	Approp	Diff	Base	of Sequester	Recommended Level	in Auth	in Bill Totals
AIR FORCE RESERVE								
Items Agreed To								
-- C-130H aircraft	$120.00	$150.00	$30.00	$120.00	$5.88	$144.12	$24.12	$24.12
Totals	$120.00	$150.00	$30.00		$5.88	$144.12	$24.12	
Items Not Agreed To								
-- Miscellaneous equipment	$0.00	$30.00	$30.00	$0.00	$0.00	$0.00	$0.00	
Totals	$0.00	$30.00	$30.00		$0.00	$0.00	$0.00	
Total, Air Force Reserve	$120.00	$180.00	$60.00		$5.88	$144.12	$24.12	
ARMY NATIONAL GUARD								
Items Agreed To								
Totals								
Items Not Agreed To								
-- Miscellaneous eqmpt	$100.00	$310.00	$210.00	$100.00	$4.90	$100.00	$0.00	
-- Improved TOW vechicle	$15.00	$28.20	$13.20	$15.00	$0.74	$15.00	$0.00	
-- M198 howitzer	$0.00	$30.20	$30.20	$0.00	$0.00	$0.00	$0.00	
-- Truck SLEP	$0.00	$32.00	$32.00	$0.00	$0.00	$0.00	$0.00	
Totals	$115.00	$400.40	$285.40		$5.64	$115.00	$0.00	
Total, Army National Guard	$115.00	$400.40	$285.40		$5.64	$115.00	$0.00	
AIR NATIONAL GUARD								
Items Agreed To								
Totals								
Items Not Agreed To								
-- Miscellaneous equipment	$30.00	$75.00	$45.00	$30.00	$1.47	$30.00	$0.00	
Totals	$30.00	$75.00	$45.00		$1.47	$30.00	$0.00	
Total, Air National Guard	$30.00	$75.00	$45.00		$1.47	$30.00	$0.00	

TABLE 1--RECOMMENDATIONS CONCERNING UNAUTHORIZED APPROPRIATIONS (CON'T)

$ in Millions

		Prior to Gramm-Rudman						
	Auth	Approp	Diff	FY1986 Base	Amount of Sequester	Recommended Level	Increase in Auth	Increase in Bill Totals
RESEARCH AND DEVELOPMENT								
Items Agreed To								
-- DIVAD altern, Army	$0.00	$41.00	$41.00	$40.50	$1.99	$38.52	$38.52	
-- Rolling airframe missile, Navy	$3.95	$10.95	$7.00	$10.94	$0.60	$10.34	$6.39	
-- Quick reaction sys, Navy	$12.00	$20.00	$8.00	$20.00	$1.09	$18.91	$6.91	
Totals	$15.95	$71.95	$56.00		$3.67	$67.77	$51.82	
Items Not Agreed To								
-- Med research, AIDS, Army	$0.00	$40.00	$40.00	$39.52	$1.94	$0.00	$0.00	
-- Ship subsys devel/LBTS, Navy	$80.00	$109.00	$29.00	$107.36	$5.86	$80.00	$0.00	
-- Bigeye operational test, Navy	$0.00	$6.00	$6.00	$6.00	$0.29	$0.00	$0.00	
-- Space Defense System, AF	$149.93	$165.00	$15.07	$165.00	$8.09	$149.93	$0.00	
-- MEECN comm upgrade, AF	$87.20	$102.20	$15.00	$99.77	$5.62	$87.20	$0.00	
-- Air Force One, AF	$0.00	$20.00	$20.00	$19.54	$0.96	$0.00	$0.00	
-- Liquid synfuels, AF	$0.00	$4.50	$4.50	$4.40	$0.22	$0.00	$0.00	
-- Precision TAC approach sys, AF	$0.00	$3.00	$3.00	$2.93	$0.14	$0.00	$0.00	
-- Director, T&E	$93.50	$118.50	$25.00	$93.50	$4.38	$93.50	$0.00	
Totals	$410.63	$568.20	$157.57		$27.69	$410.63	$0.00	
Total, Research & Development	$426.58	$640.15	$213.57		$31.36	$478.40	$51.82	

TABLE I--RECOMMENDATIONS CONCERNING UNAUTHORIZED APPROPRIATIONS (CON'T)

$ in Millions

	Auth	Prior to Gramm-Rudman Approp	Diff	FY1986 Base	Amount of Sequester	Recommended Level	Increase in Auth	Increase in Bill Totals
OPERATION AND MAINTENANCE								
Items Agreed To								
-- AIDS testing, Army	$0.00	$42.60	$42.60	$42.60	$2.09	$40.51	$40.51	
-- Drug testing, Army	$0.00	$1.50	$1.50	$1.50	$0.07	$1.43	$1.43	
-- Medical enhancements, Army	$0.00	$20.00	$20.00	$20.00	$0.98	$19.02	$19.02	
-- Med readiness, Army	$0.00	$39.20	$39.20	$39.20	$1.92	$37.28	$37.28	
-- Army readiness initiatives	$0.00	$137.00	$137.00	$137.00	$6.71	$130.29	$130.29	
-- DIVAD replacement	$0.00	$4.80	$4.80	$4.80	$0.24	$4.56	$4.56	
-- AIDS testing, Navy	$0.00	$5.00	$5.00	$5.00	$0.25	$4.76	$4.76	
-- Ready reserve fleet dispersal	$0.00	$3.60	$3.60	$3.60	$0.18	$3.42	$3.42	
-- P3-A modifications	$0.00	$3.00	$3.00	$3.00	$0.15	$2.85	$2.85	
-- Med readiness, AF	$0.00	$5.60	$5.60	$5.60	$0.27	$5.33	$5.33	
-- AIDS testing, AF	$0.00	$5.00	$5.00	$5.00	$0.25	$4.76	$4.76	
-- AF classified proj	$0.00	$0.50	$0.50	$0.50	$0.02	$0.48	$0.48	
-- DA peer review	$0.00	$7.50	$7.50	$7.50	$0.37	$7.13	$7.13	
-- DA quality assurance	$0.00	$30.00	$30.00	$30.00	$1.47	$28.53	$28.53	
-- DA, classified program	$0.00	$1.20	$1.20	$0.00	$0.00	$1.20	$1.20	
-- Force struct init, Army Res	$0.00	$6.95	$6.95	$6.95	$0.34	$6.61	$6.61	
-- Roland maintenance, Army Guard	$0.00	$4.10	$4.10	$4.10	$0.20	$3.90	$3.90	
-- Force struct init, Army Guard	$0.00	$4.10	$4.10	$4.10	$0.20	$3.90	$3.90	
-- Environmental proj, Army Guard	$0.00	$0.40	$0.40	$0.40	$0.02	$0.38	$0.38	
-- AIDS testing, Army Guard	$0.00	$2.50	$2.50	$2.50	$0.12	$2.38	$2.38	
-- ARP management fund	$0.00	$100.00	$100.00	$0.00	$0.00	$100.00	$100.00	$100.00
-- Coast Guard reimbursement	$0.00	$100.00	$100.00	$0.00	$0.00	$100.00	$100.00	
-- Environmental restoration	$329.10	$379.10	$50.00	$379.10	$18.58	$360.52	$31.42	$31.42
Totals	$329.10	$903.65	$574.55		$34.42	$869.23	$540.13	
Items Not Agreed To								
-- Real growth reduct not taken	$0.00	$90.70	$90.70	$0.00	$0.00	$0.00	$0.00	
-- Audit/Inv rept red not taken	$0.00	$218.40	$218.40	$0.00	$0.00	$0.00	$0.00	
-- Civilian training	$0.00	$3.00	$3.00	$3.00	$0.15	$0.00	$0.00	
-- F-4 upgrade, AF Res	$0.00	$2.40	$2.40	$2.40	$0.12	$0.00	$0.00	
Totals	$0.00	$314.50	$314.50		$0.26	$0.00	$0.00	
Total, Operation & Maintenance	$329.10	$1,218.15	$889.05		$34.68	$869.23	$540.13	

TABLE I—RECOMMENDATIONS CONCERNING UNAUTHORIZED APPROPRIATIONS (CON'T)

$ in Millions

		Prior to Gramm-Rudman						
	Auth	Approp	Diff	FY1986 Base	Amount of Sequester	Recommended Level	Increase in Auth	Increase in Bill Totals
MILITARY CONSTRUCTION								
Items Agreed To								
-- Berth Pier, Staten Is	$0.00	$39.70	$39.70	$39.70	$1.95	$37.75	$37.75	
Totals	$0.00	$39.70	$39.70		$1.95	$37.75	$37.75	
Items Not Agreed To								
Totals								
Total, Military Construction	$0.00	$39.70	$39.70		$1.95	$37.75	$37.75	

Each item is further assigned to one of two categories: those for which the committee recommends authority to obligate and expend the appropriations and those for which the committee recommends no such authority.

Items in the first category represent programs, projects or activities for which events or information received subsequent to the passage of the Defense Authorization Act for fiscal year 1986 warrant change. The items in the second category for which the additional appropriations would not be approved are for programs, projects and activities which the committee considers of a low enough priority in the constrained funding environment of defense and the Federal government as a whole that the additional funds are not warranted.

The first column of table reflects the amount authorized for the program (in the joint statement of the managers on the conference on the authorization bill or, in some cases, in language contained in the conference report). The second column reflects the amount appropriated (prior to Gramm-Rudman), and the third column reflects the difference as excess appropriations.

The fourth column reflects the base for the program from which the amount of sequestration was computed. In most cases, the base amount is the same as the amount appropriated. However, in some cases, the base amount reflects the assessment of an undistributed reduction, and in the cases where the program is specified in bill language (naval vessels, for example), the base amount is the amount authorized (because section 8109 of the Defense Appropriations Act for fiscal year 1986 prohibits the obligation or expenditure of appropriations in excess of authorization at the bill level of detail). The fifth column reflects the amount of the sequester.

The sixth column specifies the total level of authorization recommended by the committee for the program. This level is equal to the amount appropriated less the amount of the sequester and any other reduction taken for those programs recommended for approval: it is equal to the amount authorized for those programs not recommended for approval.

The seventh column reflects the increase in authorization required and is the difference between the recommended level of authorization and the amount currently authorized.

The eighth column reflects the increase required in the totals contained in the authorization bill (if any) to accommodate the recommended level for a particular program.

Two summary tables (Tables 2 and 3) are provided: the first summarizes the recommendations before the March sequester; the second, after the sequester and after other reductions. Table 4 indicates that, of a total of $5.6 billion in excess appropriations (at the report level of detail), $2.3 billion is recommended for approval. A total of $506 million of the excess appropriations would be eliminated as a result of the March sequester and other reductions, and a total of $2.8 billion would be denied under the recommendations.

TABLE 2
SUMMARY PRIOR TO GRAMM-RUDMAN

	($ in millions)		
	Approved	Not Approved	Total
Procurement			
Army	$512.57	$341.63	$854.20
Navy	$1,086.97	$882.90	$1,969.87
Air Force	$235.00	$594.67	$829.67
Defense Agencies	$5.38	$0.00	$5.38
Army Reserve	$0.00	$365.00	$365.00
Navy Reserve	$0.00	$55.00	$55.00
Marine Corps Reserve	$0.00	$10.00	$10.00
Air Force Reserve	$30.00	$30.00	$60.00
Army National Guard	$0.00	$285.40	$285.40
Air National Guard	$0.00	$45.00	$45.00
Total	$1,869.92	$2,609.60	$4,479.52
Research & Development			
Total	$56.00	$157.57	$213.57
Operation & Maintenance			
Total	$574.55	$314.50	$889.05
Subtotal, Less Milcon	$2,500.47	$3,081.66	$5,582.13
Military Construction			
Total	$39.70	$0.00	$39.70
Grand Total	$2,540.17	$3,081.66	$5,621.83

TABLE 3
SUMMARY AFTER REDUCTIONS

($ in millions)

	Approved	Not Approved	Total
Procurement			
Army	$488.70	$274.12	$762.82
Navy	$967.39	$763.53	$1,730.92
Air Force	$214.36	$521.19	$735.55
Defense Agencies	$5.12	$0.00	$5.12
Army Reserve	$0.00	$365.00	$365.00
Navy Reserve	$0.00	$54.02	$54.02
Marine Corps Reserve	$0.00	$9.02	$9.02
Air Force Reserve	$24.12	$30.00	$54.12
Army National Guard	$0.00	$279.77	$279.77
Air National Guard	$0.00	$43.53	$43.53
Total	$1,699.68	$2,340.18	$4,039.86
Research & Development			
Total	$51.82	$129.87	$181.69
Operation & Maintenance			
Total	$540.13	$314.24	$854.37
Subtotal, Less Milcon	$2,291.63	$2,784.29	$5,075.92
Military Construction			
Total	$37.75	$0.00	$37.75
Grand Total	$2,329.39	$2,784.29	$5,113.68

TABLE 4
OVERVIEW OF COMMITTEE RECOMMENDATIONS
(Excluding Military Construction)

	($ in millions)		
	Approved	Not Approved	Total
Totals before reductions:	$2,500.47	$3,081.66	$5,582.13
Reductions:	$208.84	$297.37	$506.21
Totals after reductions:	$2,291.63	$2,784.29	$5,075.92

TABLE 5 -- EXCESS APPROPRIATIONS BY ACCOUNT

	Amount Authorized	Amount Appropriated	Difference Appropriated Less Authorized	FY1986 Base	Amount of Sequester	Recommended Approp Denials	Recommended Level	Required Increase in Auth Bill Totals
Procurement							$10,703.75	$702.55
Shipbuilding and Conversion	$10,001.20	$10,843.40	$839.20					
SSN 688	$2,113.20	$2,123.20	$10.00	$2,054.50	$100.67	$0.00	$2,113.20	$0.00
Battleship Reactivation	$53.50	$469.00	$415.50	$53.50	$2.62	$0.00	$466.38	$412.88
MCM Cost Growth	$0.00	$97.00	$97.00	$0.00	$0.05	$0.00	$97.00	$97.00
MCM Ship	$167.10	$197.20	$30.10	$167.10	$8.19	$0.00	$189.91	$21.91
ARTB Nuclear Tng Ship	$26.50	$175.40	$148.90	$26.50	$1.30	$0.00	$174.10	$147.60
Service Craft	$37.70	$62.70	$25.00	$37.70	$1.85	$0.00	$60.85	$23.15
Undistr Red Not Taken	$0.00	$112.70	$112.70	$0.00	$0.00	$112.70	$0.00	$0.00
Other Procurement, Navy	$6,040.80	$6,377.63	$336.83	$6,040.80	$296.00	$409.70	$6,040.80	$0.00
Other Procurement, Air Force	$8,571.10	$8,571.38	$0.28	$8,551.03	$419.00	$61.37	$8,571.10	$0.00
Army Reserve	$0.00	$365.00	$365.00	$0.00	$0.07	$365.00	$0.00	$0.00
Navy Reserve	$45.00	$100.00	$55.00	$45.00	$2.21	$55.00	$45.00	$0.00
Marine Corps Reserve	$60.00	$70.00	$10.00	$60.00	$2.94	$10.00	$60.00	$0.00
Air Force Reserve	$120.00	$180.06	$60.00	$120.00	$5.88	$30.00	$144.12	$24.12
Army National Guard	$223.40	$491.80	$268.40	$223.40	$10.95	$285.40	$223.40	$0.00
Air National Guard	$210.00	$255.00	$45.00	$210.00	$10.29	$45.00	$210.00	$0.00
Research & Development								
Director of T&E	$93.50	$118.50	$25.00	$93.50	$4.58	$25.00	$93.50	$0.00
Operation & Maintenance								
Marine Corps Reserve	$57.17	$57.20	$0.03	$57.17	$2.80	$0.00	$57.17	$0.00
Air Force Reserve	$902.14	$902.70	$0.56	$902.14	$44.21	$5.40	$902.14	$0.00
Air National Guard	$1,806.16	$1,806.20	$0.04	$1,806.16	$88.50	$0.00	$1,806.16	$0.00
Environmental Restoration	$329.10	$379.10	$50.00	$329.10	$18.58	$0.00	$360.52	$31.42
ADP Equipment Management Fund	$0.00	$100.00	$100.00	$0.00	$0.00	$0.00	$100.00	$100.00
Total			$2,155.34		$1,020.57			$858.09

Recommended appropriation denials:
OPN: War reserve ammo, medical support equipment, undistributed reduction
OPAF: War reserve ammo, IDHS, medical readiness
Army Res: All
Navy Res: All
MC Res: All
AF Res: Miscellaneous equipment
Air NG: All
O&M, AF Res: Civilian training, F-4 Upgrade

Table 5 summarizes the issue of excess appropriations at the bill level of detail. Listed on the table are those budget accounts (and, in the case of Shipbuilding and Conversion, Navy, the specific programs) where appropriations exceed the amount authorized.

The first column reflects the amount authorized; the second column, the amount appropriated (before any sequester); and the third column, the difference. The fourth column reflects the base used for the sequester; and the fifth column, the amount of the sequester. The fifth column reflects the collective impact of actions recommended in the earlier tables in each of the accounts. These actions are detailed in the footnote to the table. The sixth column reflects the recommended level of authorization for the total account (and the individual ships). The seventh column reflects the increase in authorization required to effect the recommendation.

At the level of authorization recommended for each of the accounts, after taking into account the effect of the sequester and the other reductions and restrictions on the excess appropriations for the individual programs, projects and activities recommended by the committee, no excess appropriations remain at the budget account level of detail.

Additional detail for O&M

In approving the Defense Authorization Act for fiscal year 1986, the Congress approved reductions in real growth in a number of activities in operation and maintenance accounts and applied reductions resulting from savings suggested by a number of audit and investigative reports. These reductions were not included, in many cases, in the levels approved in the Defense Appropriations Act. The committee recommends that these excess appropriations not be approved. The specific reductions are shown in Table 6.

TABLE 6 -- ADDITIONAL O&M DETAIL

	$ in Millions			
	Amount Authorized	Amount Appropriated	Difference	Recommended Level
Real Growth Reductions not Taken				
ARMY				
-- Administration/Supervision	$4.00	$7.00	$3.00	$4.00
-- Other Combat Equipment Activities	$152.60	$154.60	$2.00	$152.60
-- Displaced Equipment	$235.10	$238.10	$3.00	$235.10
-- Contracting Initiatives	$0.00	$5.00	$5.00	$0.00
-- Capital Expense Equipment	$5.80	$6.80	$1.00	$5.80
-- Other Personnel Activities	$39.90	$41.90	$2.00	$39.90
-- Civilian Training	$5.00	$6.00	$1.00	$5.00
-- Personal Services Contracting	$16.00	$19.00	$3.00	$16.00
-- Operations Support	$3.80	$6.80	$3.00	$3.80
-- Area Oriented Depot Modernization	$4.00	$6.00	$2.00	$4.00
NAVY				
-- Sealift	$771.30	$787.30	$16.00	$771.30
AIR FORCE				
-- Inventory Control Points	$566.70	$571.70	$5.00	$566.70
-- Logistics Support	$203.40	$205.40	$2.00	$203.40
-- Administration	$591.30	$596.30	$5.00	$591.30
-- Training and Personnel	$1,388.50	$1,390.30	$1.80	$1,388.50
-- Communications Divestiture Savings	($10.00)	$0.00	$10.00	($10.00)
-- Strategic Support	$253.70	$258.70	$5.00	$253.70
-- Medical	$765.70	$766.50	$0.80	$765.70
-- Software Modernization	$7.70	$9.70	$2.00	$7.70
DEFENSE AGENCIES				
-- Defense Logistics Agency	$1,694.70	$1,701.80	$7.10	$1,694.70
-- American Forces Information Service	$54.40	$56.40	$2.00	$54.40
-- Medical Information System	$78.80	$81.80	$3.00	$78.80
-- Defense Communications Agency	$272.40	$276.40	$4.00	$272.40
-- Office of Secretary of Defense	$133.80	$134.80	$1.00	$133.80
-- Joint Chiefs of Staff	$328.20	$329.20	$1.00	$328.20
Totals	$7,566.80	$7,657.50	$90.70	$7,566.80

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TABLE 6 -- ADDITIONAL O&M DETAIL (CON'T)

	$ in Millions			
	Amount Authorized	Amount Appropriated	Difference	Recommended Level
Audit/Investigative Report Reductions Not Taken				
ARMY				
-- ADP Management	($15.00)	($2.30)	$12.70	($15.00)
-- Improper Use of O&M Funds	($15.00)	$0.00	$15.00	($15.00)
-- Yearend Spending	($6.00)	$0.00	$6.00	($6.00)
-- Audit Followup	($10.00)	$0.00	$10.00	($10.00)
-- AAFES Lease Payments	($1.00)	$0.00	$1.00	($1.00)
-- Design Cost of NAF Projects	($1.00)	$0.00	$1.00	($1.00)
-- Contract Studies	($5.00)	($2.50)	$2.50	($5.00)
-- Financial Management	($5.00)	$0.00	$5.00	($5.00)
-- Excess Property	($5.00)	$0.00	$5.00	($5.00)
-- Inventory Control	($5.00)	$0.00	$5.00	($5.00)
NAVY				
-- Excess Property	($5.00)	$0.00	$5.00	($5.00)
-- Improper Use of O&M Funds	($20.00)	$0.00	$20.00	($20.00)
-- Contract Studies	($10.00)	($5.00)	$5.00	($10.00)
-- Audit Followup	($10.00)	$0.00	$10.00	($10.00)
-- Yearend Spending	($10.00)	$0.00	$10.00	($10.00)
-- Small Clubs	($1.00)	$0.00	$1.00	($1.00)
-- Financial Managreent	($10.00)	$0.00	$10.00	($10.00)
MARINE CORPS				
-- Improper Use of O&M Funds	($2.00)	$0.00	$2.00	($2.00)
AIR FORCE				
-- Inventory Control Audit	($10.00)	$0.00	$10.00	($10.00)
-- ADP Management	($25.00)	($6.80)	$18.20	($25.00)
-- Improper Use of O&M Funds	($10.00)	$0.00	$10.00	($10.00)
-- Audit Followup	($10.00)	$0.00	$10.00	($10.00)
-- Yearend Spending	($4.00)	$0.00	$4.00	($4.00)
-- Golf Courses	($5.00)	$0.00	$5.00	($5.00)
DEFENSE AGENCIES				
-- Yearend Spending	($7.00)	$0.00	$7.00	($7.00)
-- ADP Management	($10.00)	$0.00	$10.00	($10.00)
-- Small Clubs	($1.00)	$0.00	$1.00	($1.00)
-- Inventory Control	($5.00)	$0.00	$5.00	($5.00)
-- Contract Studies	($10.00)	$0.00	$10.00	($10.00)
-- Improper Use of O&M Funds	($2.00)	$0.00	$2.00	($2.00)
Totals	($235.00)	($16.60)	$218.40	($235.00)

Prior report requirements (sec. 402(c))

The committee included a provision (sec. 402(c)) that would further restrict the obligation and expenditure of appropriations for certain programs, projects and activities until the Secretary of Defense submits a report setting forth in detail the manner in which funds are proposed to be spent for such programs. The committee directs the Secretary not to obligate the funds for such programs until the committee has reviewed the report and provided written approval of the plan for obligating the funds. The committee intends that the requirement be satisfied using the existing procedures governing prior approval reprogrammings. The specific programs affected by this provision are the follow-on air defense equipment in Army procurement and DIVAD alternatives in Army R&D.

Program limitations (sec. 402(f))

The committee included a provision (sec. 402(f)) specifying that all limitations and requirements set forth in the Defense Authorization Act for fiscal year 1986 and in the joint statement of the committee of conference apply to the obligation of the additional funds authorized in title IV of the legislation. This provision is necessary because additional authorization (not provided in the Defense Authorization Act for fiscal year 1986) is being provided by title IV.

Transfer authority (sec. 402(g))

The committee also included a provision (sec. 402(g)) specifying that the additional funds made available by title IV are intended to be subject to the general transfer provision contained in section 1401 of the Defense Authorization Act for fiscal year 1986.

Restrictions on funding for Navy strategic homeporting

The committee recommends approval of $37.75 million for construction of a berthing pier at Staten Island, New York, in support of the Navy's strategic homeporting program. However, this action is taken with the understanding that, in accordance with the provisions of section 205 of the Military Construction Authorization Act for fiscal year 1986 (Public Law 99-167), the funds may not be obligated or expended until the Committees on Armed Services of the Senate and the House of Representatives have approved the ship dispersal concept.

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APPENDIX

DETAILED ANALYSIS OF CHANGES TO THE RETIREMENT SYSTEM

BACKGROUND

Analysis of changes to retirement system parameters

At the committee's request, the Congressional Budget Office evaluated a variety of potential changes to the military retirement system. The evaluation was performed using methodologies and models similar to those used by the Department of Defense; however, results differ from results espoused by the Department of Defense in some cases because different baselines or assumptions were used.

For example, the Congressional Budget Office incorporates its estimate of the change in retention into the assessment of savings (for example, if retention decreases, retirement savings will increase because fewer personnel will reach retirement eligibility). However, the Department of Defense (in accord with accepted actuarial principles) does not reflect changed retention assumptions in the calculation of savings until the change is actually observed. As a result, all other things being equal, estimates of savings made by the Congressional Budget Office would be somewhat larger than those made by the Department of Defense as a result of this factor.

If the same baselines and assumptions are used, the results are, for all practical purposes, identical.

The committee believes the baselines and assumptions used by the Congressional Budget Office are more appropriate. For example, from a policy perspective, the more correct assessment of the savings that will result from a change to the retirement system will, necessarily, be based on an estimate of the change in the retention rates.

In any event, although an estimate of the magnitude of the effects of a change to the military retirement system made by the Congressional Budget Office may differ from the estimate of the Department of Defense because of the differences in the baseline and assumptions, the comparison of the *relative* impacts between options would not change. In other words, if option 17, for example, were "better than" option 23 according to the Congressional Budget Office, it would also be "better than" option 23 according to the Department of Defense.

Table A-1 presents the results of the evaluation performed by the Congressional Budget Office. Each option was evaluated in terms of its effect on reducing the normal cost and on the major characteristics of force composition. For example, the first option in the table would provide a multiplier of 35 percent at 20 years of service with no restoral in the level of the annuity at age 60, the full cost-of-living adjustment throughout the retiree's lifetime, and no social security offset.

The first entry for the option is the total end strength used in the evaluation. The end strength is the same in all cases: 2,228,092.

The second entry, 1,093,807 for the first option, is the total number of personnel with 5 to 30 years of service. This is one measure frequently used to specify the size of the career force.

The third entry, 18.97 percent, is the percentage reduction in the normal cost. In other words, this entry specifies the savings attributable to the option.

The fourth entry, 11.99, is the average years of service that would be expected under the option.

The fifth entry is the number of accessions that would be required to support the total desired end strength.

The sixth, seventh, eighth, and ninth entries are the number of personnel with 5 to 10, 11 to 15, 16 to 20, and 21 to 30 years of service, respectively. These entries provide an overview of the impact of changes on the force composition.

The final entry is the number of personnel in the career force. This entry incorporates the reenlistment decisions that imply that a service member has entered the career force. The analysis described in this paper uses this entry as a measure of the impact of an option on the size of the career force.

Table A-2 presents the same information for the base case (from which the options are compared), for the proposals submitted by the Department of Defense and for the committee's recommendation. The analysis in this report is based entirely on the data contained in Tables A-1 and A-2.

TABLE A-1
EFFECT OF CHANGES TO THE MILITARY RETIREMENT SYSTEM

	FULL COLA				COLA-1 TO FULL COLA				COLA-1 TO COLA-1			
SS Offset=	None	5%	10%	15%	None	5%	10%	15%	None	5%	10%	15%
Multiplier:												
35% w/o restoral												
Endstr	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092
YOS 5-30	1093807	1093019	1092229	1091435	1083576	1082843	1082102	1081364	1083498	1082765	1082026	1081291
% Chg NCP	18.97%	19.93%	20.87%	21.82%	22.82%	23.72%	24.67%	25.63%	25.88%	26.72%	27.57%	28.40%
Seniority	11.99	11.97	11.95	11.93	11.83	11.81	11.79	11.78	11.82	11.81	11.79	11.78
Accessions	339973	340281	340587	340891	343247	343529	343813	344093	343315	343596	343874	344150
YOS 5-10	556583	556878	557168	557454	559522	559779	560032	560282	559588	559841	560089	560335
YOS 11-15	245756	245749	245742	245732	245012	244988	244960	244932	245013	244987	244959	244932
YOS 16-20	181650	181561	181470	181379	178851	178751	178649	178548	178849	178747	178645	178543
YOS 21-30	109818	108831	107849	106870	100191	99325	98461	97602	100048	99190	98333	97481
Career	1099413	1098395	1097385	1096379	1088657	1087721	1086786	1085860	1088429	1087506	1086588	1085677
40% w/o restoral												
Endstr	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092
YOS 5-30	1100805	1100134	1099464	1098785	1089421	1088790	1088167	1087547	1089380	1088746	1088130	1087510
% Chg NCP	12.73%	13.74%	14.77%	15.77%	16.87%	17.90%	18.90%	19.93%	20.20%	21.10%	22.00%	22.90%
Seniority	11.94	11.93	11.91	11.89	11.80	11.78	11.77	11.75	11.79	11.78	11.76	11.75
Accessions	338039	338303	338564	338823	341665	341907	342146	342383	341717	341956	342191	342425
YOS 5-10	557302	557621	557936	558247	559754	560031	560309	560585	559823	560095	560370	560642
YOS 11-15	249940	249970	249998	250026	248424	248434	248443	248454	248443	248449	248460	248467
YOS 16-20	189171	189112	189053	188991	185741	185666	185592	185518	185751	185676	185601	185527
YOS 21-30	104392	103431	102477	101521	95502	94659	93823	92990	95363	94526	93699	92874
Career	1105575	1104697	1103828	1102963	1093759	1092949	1092150	1091363	1093583	1092785	1092004	1091227
35% with restoral												
Endstr	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092
YOS 5-30	1096498	1095684	1094863	1094041	1085944	1085174	1084400	1083629	1085872	1085103	1084329	1083562
% Chg NCP	12.37%	13.54%	14.72%	15.90%	16.18%	17.34%	18.52%	19.70%	19.84%	20.86%	21.90%	22.93%
Seniority	12.01	11.99	11.97	11.95	11.85	11.83	11.82	11.80	11.85	11.83	11.81	11.80
Accessions	339223	339538	339849	340161	342591	342881	343172	343461	342656	342944	343229	343515
YOS 5-10	555757	556083	556405	556726	558686	558963	559236	559509	558757	559028	559295	559563
YOS 11-15	246326	246320	246312	246302	245432	245407	245381	245355	245440	245413	245388	245361
YOS 16-20	183409	183290	183169	183047	180507	180380	180250	180119	180510	180382	180251	180121
YOS 21-30	111006	109991	108977	107966	101319	100424	99533	98646	101165	100280	99395	98517
Career	1101925	1100889	1099858	1098829	1090870	1089903	1088943	1087989	1090650	1089699	1088754	1087814
40% with restoral												
Endstr	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092	2220092
YOS 5-30	1103332	1102630	1101903	1101179	1091752	1091091	1090426	1089754	1091717	1091054	1090390	1089720
% Chg NCP	8.34%	9.52%	10.67%	11.83%	12.47%	13.65%	14.83%	15.97%	16.18%	17.20%	18.24%	19.26%
Seniority	11.96	11.94	11.92	11.91	11.81	11.80	11.78	11.76	11.81	11.79	11.78	11.76
Accessions	337298	337575	337852	338124	340981	341235	341486	341735	341033	341280	341530	341775
YOS 5-10	556989	557317	557639	557961	559432	559720	560005	560285	559504	559788	560068	560343
YOS 11-15	250648	250686	250701	250716	249054	249057	249058	249057	249077	249076	249077	249075
YOS 16-20	190516	190431	190344	190257	187019	186926	186830	186731	187034	186939	186841	186742
YOS 21-30	105179	104196	103219	102245	96247	95388	94533	93681	96102	95251	94404	93560
Career	1108000	1107076	1106162	1105235	1095986	1095147	1094312	1093483	1095819	1094991	1094169	1093348

TABLE A-2
BASELINE FORCE, DOD OPTIONS AND COMMITTEE PROPOSAL

	CURRENT BASELINE	DOD STRUCTURAL ONLY	DOD MIXED	COMMITTEE PROPOSAL
	************	***********	***********	***********
Endstr	2228092	2228092	2228092	2228092
YOS 5-30	1125436	1090428	1097359	1095853
% Chg NCP	0.00%	16.00%	15.50%	17.50%
Seniority	11.88	11.67	11.78	11.97
Accessions	331003	341515	339340	339456
YOS 5-10	561048	562675	560829	556616
YOS 11-15	262386	251996	252465	247128
YOS 16-20	206490	190624	192032	184480
YOS 21-30	95512	85133	92033	107629
Career	1128081	1093950	1101048	1101114

COST IMPACTS OF THE OPTIONS

Not all the options evaluated, of course, would result in the same savings. Table A-3 portrays the savings for each of the options. The savings span the following range:

—$1.52 billion for the option that would change the multiplier to 40 percent for 20 years of service with a restoral at age 60 but make no other changes.

—$5.19 billion for the option that would change the multiplier to 35 percent for 20 years of service (with no restoral), change the cost-of-living adjustment to CPI minus 1 for life with a onetime restoral at age 60, and require a 15 percent offset for social security.

TABLE A-3

Savings in Accrual Charge ($ in billions)

Full COLA combined with:

		Multiplier and Offset		
	Multiplier Only	5% SS Offset	10% SS Offset	15% SS Offset
Multiplier Change:				
35% w/o restoral...	3.46	3.64	3.81	3.98
40% w/o restoral...	2.32	2.51	2.70	2.88
35% w/ restoral....	2.26	2.47	2.69	2.90
40% w/ restoral....	1.52	1.74	1.95	2.16
SS Offset only.....		0.22	0.43	0.64

Savings in Accrual Charge ($ in billions)

CPI-1 to age 60, full COLA
thereafter combined with:

		Multiplier and Offset		
	Multiplier Only	5% SS Offset	10% SS Offset	15% SS Offset
Multiplier Change:				
35% w/o restoral...	4.17	4.33	4.50	4.68
40% w/o restoral...	3.08	3.27	3.45	3.64
35% w/ restoral....	2.95	3.17	3.38	3.60
40% w/ restoral....	2.20	2.49	2.71	2.92
SS Offset only.....		0.22	0.43	0.64

Savings in Accrual Charge ($ in billions)

CPI-1 for life, one time
restoral at age 60, combined with:

		Multiplier and Offset		
	Multiplier Only	5% SS Offset	10% SS Offset	15% SS Offset
Multiplier Change:				
35% w/o restoral...	4.73	4.88	5.03	5.19
40% w/o restoral...	3.69	3.85	4.02	4.18
35% w/ restoral....	3.62	3.81	4.00	4.19
40% w/ restoral....	2.95	3.14	3.33	3.52
SS Offset only.....		0.19	0.38	0.56

The proposals submitted by the Department of Defense would save between $2.8 and $2.9 billion when estimated by the Congressional Budget Office using the same baseline and assumptions that were used for the other options. The committee recommendation would save slightly over $3 billion.

MANPOWER IMPLICATIONS

The impact in each of the years of service categories for each of the options—including the proposals submitted by the Department of Defense and the committee recommendation—is shown in Table A-4. The variations among the options were used to evaluate the effect of different types of changes on the composition of the force. The results of the analysis are described below.

TABLE A-4
EFFECT OF CHANGES TO THE MILITARY RETIREMENT SYSTEM
(Expressed as a Percentage Change from the Baseline Force)

	FULL COLA				COLA-1 TO FULL COLA				COLA-1 TO COLA-1			
SS Offset=	None	5%	10%	15%	None	5%	10%	15%	None	5%	.10%	15%
Multiplier:												
35% w/o restoral												
Accessions	2.71%	2.80%	2.90%	2.99%	3.70%	3.78%	3.87%	3.95%	3.72%	3.80%	3.89%	3.97%
YOS 5-10	-0.80%	-0.74%	-0.69%	-0.64%	-0.27%	-0.23%	-0.18%	-0.14%	-0.26%	-0.22%	-0.17%	-0.13%
YOS 11-15	-6.34%	-6.34%	-6.34%	-6.35%	-6.62%	-6.63%	-6.64%	-6.65%	-6.62%	-6.63%	-6.64%	-6.65%
YOS 16-20	-12.03%	-12.07%	-12.12%	-12.16%	-13.39%	-13.43%	-13.48%	-13.53%	-13.39%	-13.44%	-13.48%	-13.53%
YOS 21-30	14.98%	13.96%	12.92%	11.89%	4.90%	3.99%	3.09%	2.19%	4.75%	3.85%	2.95%	2.06%
Career	-2.54%	-2.63%	-2.72%	-2.81%	-3.49%	-3.58%	-3.66%	-3.74%	-3.51%	-3.60%	-3.68%	-3.76%
40% w/o restoral												
Accessions	2.13%	2.21%	2.28%	2.36%	3.22%	3.29%	3.37%	3.44%	3.24%	3.31%	3.38%	3.45%
YOS 5-10	-0.67%	-0.61%	-0.55%	-0.50%	-0.23%	-0.18%	-0.13%	-0.08%	-0.22%	-0.17%	-0.12%	-0.07%
YOS 11-15	-4.74%	-4.73%	-4.72%	-4.71%	-5.32%	-5.32%	-5.31%	-5.31%	-5.31%	-5.31%	-5.31%	-5.30%
YOS 16-20	-8.39%	-8.42%	-8.44%	-8.47%	-10.03%	-10.08%	-10.12%	-10.16%	-10.04%	-10.08%	-10.12%	-10.15%
YOS 21-30	9.30%	8.29%	7.29%	6.29%	-0.01%	-0.89%	-1.77%	-2.64%	-0.16%	-1.03%	-1.90%	-2.76%
Career	-2.00%	-2.07%	-2.15%	-2.23%	-3.04%	-3.11%	-3.19%	-3.25%	-3.06%	-3.13%	-3.20%	-3.27%
35% with restoral												
Accessions	2.48%	2.58%	2.67%	2.77%	3.50%	3.59%	3.68%	3.76%	3.52%	3.61%	3.69%	3.78%
YOS 5-10	-0.94%	-0.88%	-0.83%	-0.77%	-0.42%	-0.37%	-0.32%	-0.27%	-0.41%	-0.36%	-0.31%	-0.26%
YOS 11-15	-6.12%	-6.12%	-6.13%	-6.13%	-6.46%	-6.47%	-6.48%	-6.49%	-6.46%	-6.47%	-6.48%	-6.49%
YOS 16-20	-11.18%	-11.24%	-11.29%	-11.35%	-12.58%	-12.64%	-12.71%	-12.77%	-12.58%	-12.64%	-12.71%	-12.77%
YOS 21-30	16.22%	15.16%	14.10%	13.04%	6.08%	5.14%	4.21%	3.28%	5.92%	4.99%	4.07%	3.15%
Career	-2.32%	-2.41%	-2.50%	-2.59%	-3.30%	-3.38%	-3.47%	-3.55%	-3.32%	-3.40%	-3.49%	-3.57%
40% with restoral												
Accessions	1.90%	1.99%	2.07%	2.15%	3.01%	3.09%	3.17%	3.24%	3.03%	3.10%	3.18%	3.25%
YOS 5-10	-0.72%	-0.67%	-0.61%	-0.55%	-0.29%	-0.24%	-0.19%	-0.14%	-0.28%	-0.22%	-0.17%	-0.13%
YOS 11-15	-4.47%	-4.46%	-4.45%	-4.45%	-5.08%	-5.08%	-5.08%	-5.08%	-5.07%	-5.07%	-5.07%	-5.07%
YOS 16-20	-7.74%	-7.78%	-7.82%	-7.86%	-9.43%	-9.47%	-9.52%	-9.57%	-9.42%	-9.47%	-9.52%	-9.56%
YOS 21-30	10.12%	9.09%	8.07%	7.05%	0.77%	-0.13%	-1.03%	-1.92%	0.62%	-0.27%	-1.16%	-2.04%
Career	-1.78%	-1.86%	-1.94%	-2.02%	-2.85%	-2.92%	-2.99%	-3.07%	-2.86%	-2.93%	-3.01%	-3.08%

	DOD STRUCTURAL ONLY	DOD MIXED	COMMITTEE PROPOSAL
Accessions	3.10%	2.32%	2.55%
YOS 5-10	0.29%	-0.04%	-0.79%
YOS 11-15	-3.96%	-3.78%	-5.82%
YOS 16-20	-7.68%	-7.00%	-10.66%
YOS 21-30	-10.87%	-3.64%	12.69%
Career	-3.03%	-2.40%	-2.39%

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Variation among providing equal savings

As the discussion earlier in the report concerning the two Department of Defense proposals and the committee's recommendation implies, the impact on the force composition varies even among options that result in the same approximate overall retirement savings. This occurs because the characteristics of the changes that comprise the options may have different effects on individual behavior even though they have the same overall effects on retirement costs.[1]

Six options evaluated by the Congressional Budget Office can be used to highlight the different impacts that result from alternatives that achieve the same approximate retirement savings. The six options are:

- —A multiplier of 40 percent for 20 years of service with no restoral at age 60, full cost-of-living adjustment, and a 15 percent social security offset (savings: $2.88 billion)
- —A multiplier of 35 percent for 20 years of service with a restoral at age 60, full cost-of-living adjustment, and a 15 percent social security offset (savings: $2.90 billion)
- —A multiplier of 40 percent for 20 years of service with a restoral at age 60, CPI minus 1 until age 60 with a restoral and full cost-of-living adjustment thereafter, and a 15 percent social security offset (savings: $2.92 billion)
- —A multiplier of 35 percent for 20 years of service with a restoral at age 60, CPI minus 1 until age 60 with a restoral and full cost-of-living adjustment thereafter, and no social security offset (savings: $2.95 billion)
- —A multiplier of 40 percent for 20 years of service with a restoral at age 60, CPI minus 1 for life with a onetime restoral at age 60, and no social security offset (savings: $2.95 billion)
- —A multiplier of 40 percent for 20 years of service with a restoral at age 60, CPI minus 1 until age 60 with a restoral and full cost-of-living adjustment thereafter, and no social security offset (savings: $3.08 billion)

The impact of the six options is portrayed in Figures A-1 to A-6. Each figure presents all three charts that were discussed above (total strength, differences in total strength, and percentage change in total strength) for each of the options and proposals, but the discussion below will focus on the bottom chart in each figure.

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[1] The reactions of service members are predicted on the basis of an underlying mathematical and statistical model. The model used to estimate the impact of a change on the force assumes that service members maximize lifetime earnings when deciding to stay in the military or to leave. The form of a change to the military retirement system is important in the model only to the extent that it changes lifetime earnings. Individual behavior is modeled using personal discount rates that differ from the lower interest rate used to calculate the normal cost. Consequently, two options may vary in the impact they have on behavior but result in the same retirement savings.

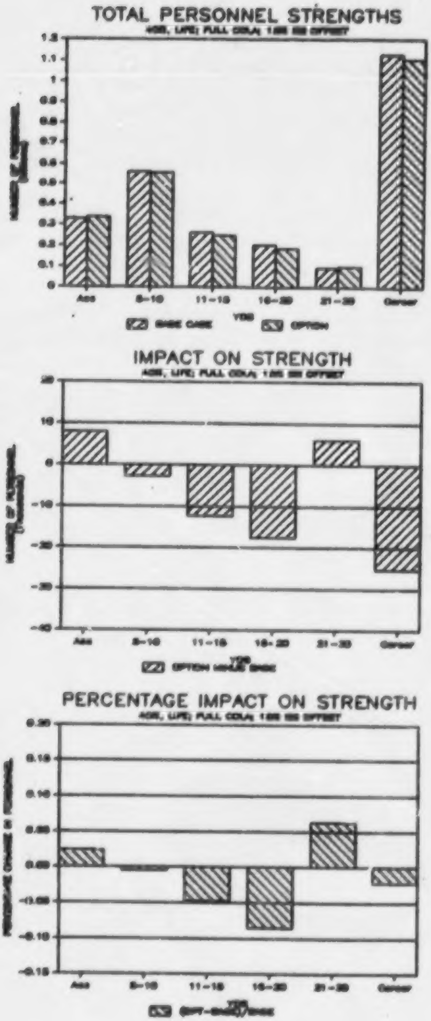

FIGURE A-1

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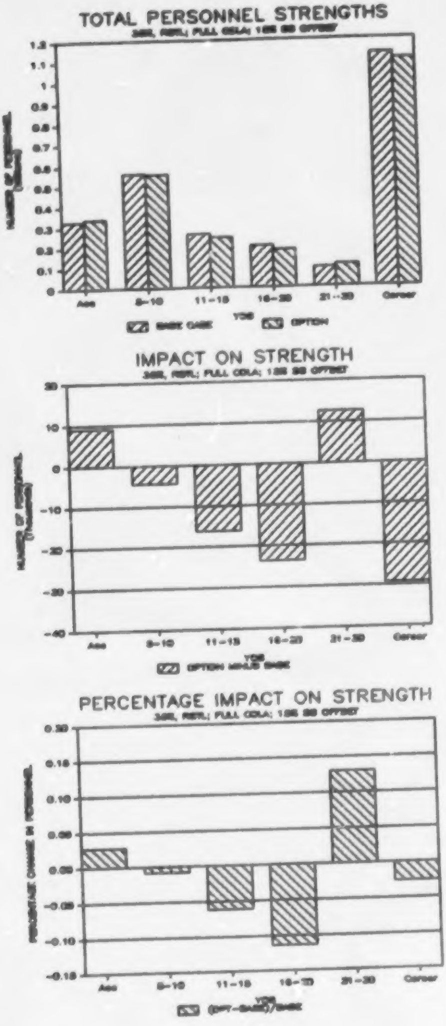

TOTAL PERSONNEL STRENGTHS

IMPACT ON STRENGTH

PERCENTAGE IMPACT ON STRENGTH

FIGURE A-2

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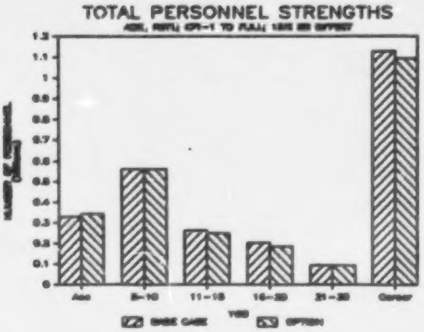
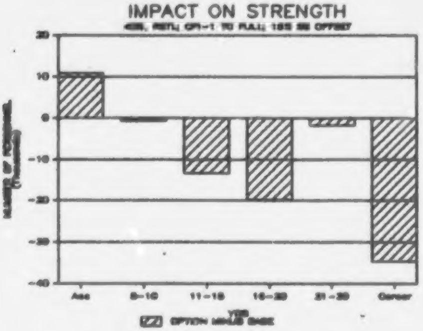
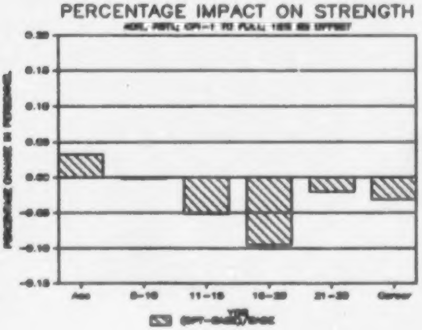
FIGURE A-3



TOTAL PERSONNEL STRENGTHS



IMPACT ON STRENGTH



PERCENTAGE IMPACT ON STRENGTH

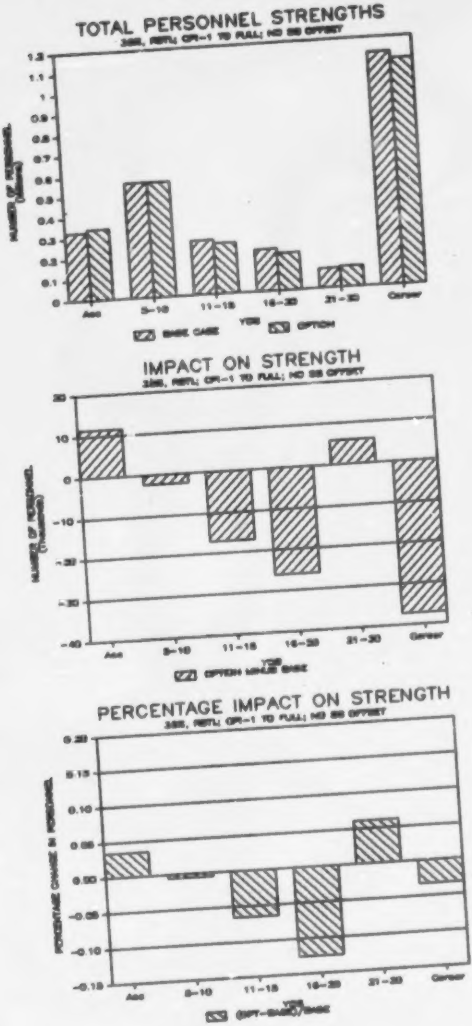
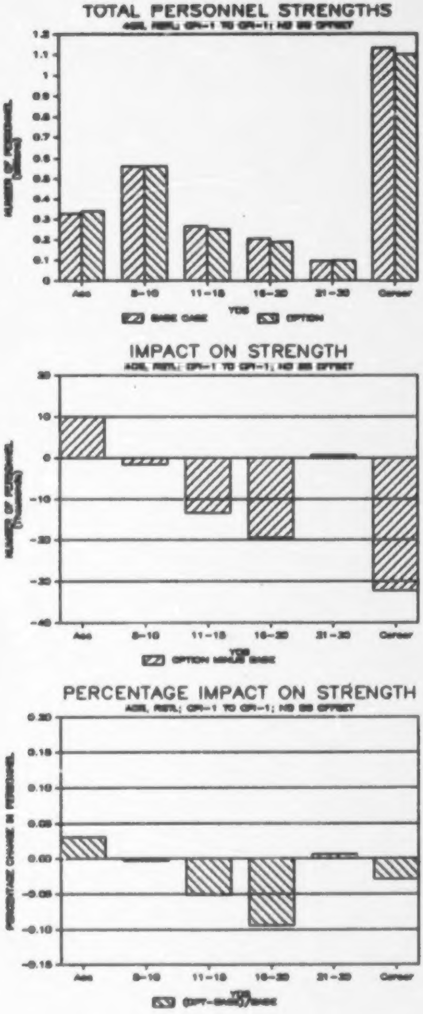

TOTAL PERSONNEL STRENGTHS
3SS, RETL; CPI-1 TO FULL; NO SS OFFSET
NUMBER OF PERSONNEL (Millions)
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
Acc
5-10
11-15
16-20
21-30
Career
YOS
BASE CASE
OPTION
IMPACT ON STRENGTH
3SS, RETL; CPI-1 TO FULL; NO SS OFFSET
NUMBER OF PERSONNEL (Thousands)
20
10
0
-10
-20
-30
-40
Acc
5-10
11-15
16-20
21-30
Career
YOS
OPTION MINUS BASE
PERCENTAGE IMPACT ON STRENGTH
3SS, RETL; CPI-1 TO FULL; NO SS OFFSET
PERCENTAGE CHANGE IN PERSONNEL
0.20
0.15
0.10
0.05
0.00
-0.05
-0.10
-0.15
Acc
5-10
11-15
16-20
21-30
Career
YOS
(OPT-BASE)/BASE

FIGURE A-4



TOTAL PERSONNEL STRENGTHS

ACS, RETL; CPI-1 TO CPI-1; NO SS OFFSET

IMPACT ON STRENGTH

ACS, RETL; CPI-1 TO CPI-1; NO SS OFFSET

PERCENTAGE IMPACT ON STRENGTH

ACS, RETL; CPI-1 TO CPI-1; NO SS OFFSET

FIGURE A-5

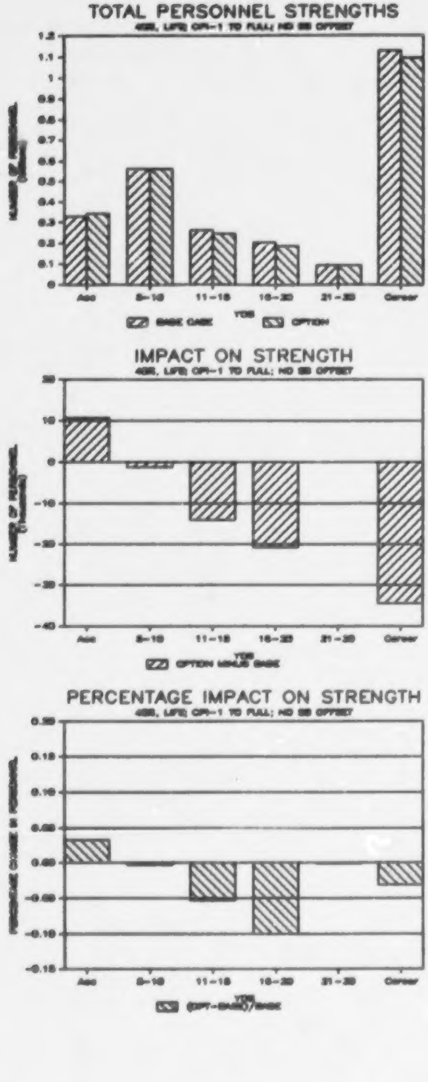

TOTAL PERSONNEL STRENGTHS
40R, LIFE; CPI-1 TO FULL; NO SS OFFSET
NUMBER OF PERSONNEL (Millions)
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
Acc
5-10
11-15
16-20
21-30
Career
YOS
BASE CASE
OPTION
IMPACT ON STRENGTH
40R, LIFE; CPI-1 TO FULL; NO SS OFFSET
NUMBER OF PERSONNEL (Thousands)
20
10
0
-10
-20
-30
-40
Acc
5-10
11-15
16-20
21-30
Career
YOS
OPTION MINUS BASE
PERCENTAGE IMPACT ON STRENGTH
40R, LIFE; CPI-1 TO FULL; NO SS OFFSET
PERCENTAGE CHANGE IN PERSONNEL
0.20
0.15
0.10
0.05
0.00
-0.05
-0.10
-0.15
Acc
5-10
11-15
16-20
21-30
Career
YOS
(OPT-BASE)/BASE

FIGURE A-6

The following conclusions can be drawn from the figures that describe the impact of the options delineated above:

—Options achieving the same savings can affect the size of the total career force differently. For the options considered, the total career force would be reduced by between 2.1 percent and 3.2 percent.

—The largest variation is observed in the 21 to 30 years of service category. The change in the size of this category ranges from an *increase* of approximately 13 percent to a decrease of nearly 11 percent.

—Changes to the cost-of-living adjustment (particularly moving from full cost-of-living adjustment to CPI minus 1 before age 60) exhibit an impact on the 21 to 30 years of service category approximately equal to changing the multiplier from 40 percent to 35 percent (for 20 years of service).

—The option containing the high-5 average has the largest adverse impact on the 21 to 30 years of service category of any of the options.

—Changing the multiplier from 40 percent to 35 percent (for 20 years of service) exhibits a slightly greater impact on the 11 to 20 years of service categories than the changes to the cost-of-living adjustment.

Although variations in some of the categories appear to loom large, the differences, again, appear almost negligible when viewed within the context of the total force strengths (the top chart in each figure). This observation brings into question whether the assessment of the impact can (or should) be used to decide between options.

The remainder of this section investigates several groups of options. The options in each group are identical with the exception of one characteristic of the retirement system. The characteristic (such as the cost-of-living adjustment) is varied over the range of alternatives in order to isolate the impact of that characteristic on the force composition. Although some interactive effects exist (for example, changes to the cost-of-living adjustment have slightly less impact if reduced multipliers are also present because the base for the cost-of-living adjustment is lower), the conclusions suggested remain constant over a wide range of comparisons.

Effect of COLA changes

This section investigates the effect of changes to the cost-of-living adjustment on the force composition. Three options are considered:

—A multiplier of 40 percent for 20 years of service with no restoral at age 60, *full cost-of-living adjustment,* and no social security offset (savings: $2.32 billion)

—A multiplier of 40 percent for 20 years of service with no restoral at age 60, *CPI minus 1 until age 60 with a restoral and full cost-of-living adjustment thereafter,* and no social security offset (savings: $3.08 billion)

—A multiplier of 40 percent for 20 years of service with no restoral at age 60, *CPI minus 1 for life with a one time restoral at age 60,* and no social security offset (savings: $3.69 billion)

The impact of the three options is portrayed in Figures A-7, A-8, and A-9.

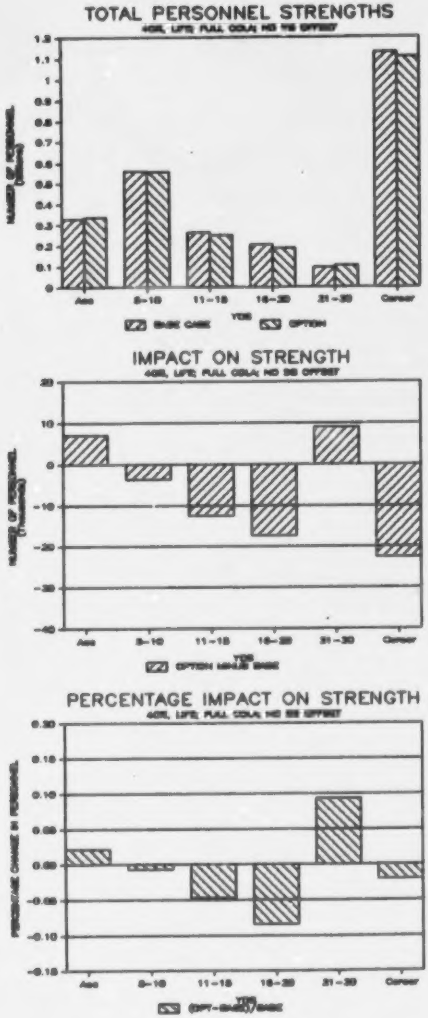


FIGURE A-7

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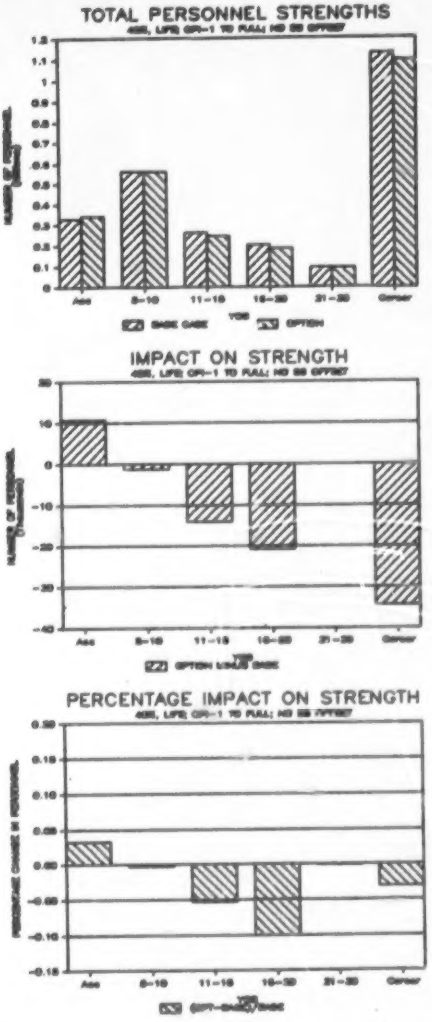
FIGURE A-8



TOTAL PERSONNEL STRENGTHS

40%, LIFE; CPI-1 TO FULL; NO SS OFFSET

IMPACT ON STRENGTH

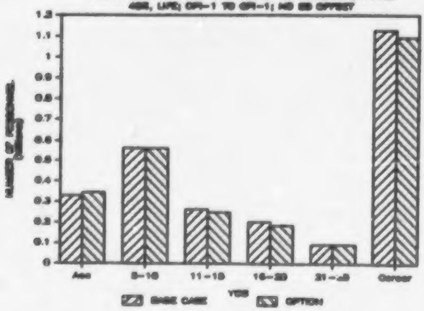
40%, LIFE; CPI-1 TO FULL; NO SS OFFSET

PERCENTAGE IMPACT ON STRENGTH

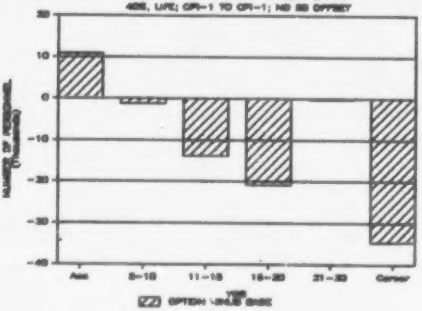
40%, LIFE; CPI-1 TO FULL; NO SS OFFSET

FIGURE A-9

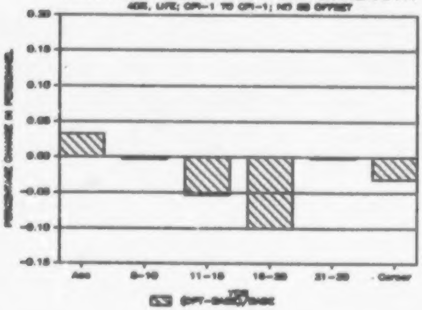
TOTAL PERSONNEL STRENGTHS



IMPACT ON STRENGTH



PERCENTAGE IMPACT ON STRENGTH



Changing from a full cost-of-living adjustment to CPI minus 1 until age 60 with a restoral and full cost-of-living adjustment thereafter exhibits the following impacts:

- —The impact on the career force increases by 50 percent (from a reduction of 2 percent to a reduction of 3 percent)
- —The greatest percentage impact is found in the 21 to 30 years of service group (a reduction of more than 9 percent)

Changing from CPI minus 1 until age 60 with a restoral and full cost-of-living adjustment thereafter to CPI minus 1 for life with a one time restoral at age 60 exhibits almost no impact—even though the latter change would result in approximately twice the savings resulting from the former change. Clearly, the later the reduction in retired pay occurs, the less the impact on the force composition.

The conclusions reached on the basis of the three options described above are generally applicable to any of the options in the range considered if only the cost-of-living adjustment is varied among options.

Effect of a social security offset

This section investigates the effect of a social security offset on the force composition. Four options are considered:

- —A multiplier of 35 percent for 20 years of service with a restoral at age 60, full cost-of-living adjustment, and *no social security offset* (savings: $2.26 billion)
- —A multiplier of 35 percent for 20 years of service with a restoral at age 60, full cost-of-living adjustment, and a *5 percent social security offset* (savings: $2.47 billion)
- —A multiplier of 35 percent for 20 years of service with a restoral at age 60, full cost-of-living adjustment, and a *10 percent social security offset* (savings: $2.69 billion)
- —A multiplier of 35 percent for 20 years of service with a restoral at age 60, full cost-of-living adjustment, and a *15 percent social security offset* (savings: $2.90 billion)

The impact on the force composition is portrayed in Figures A-10, A-11, A-12, and A-13.

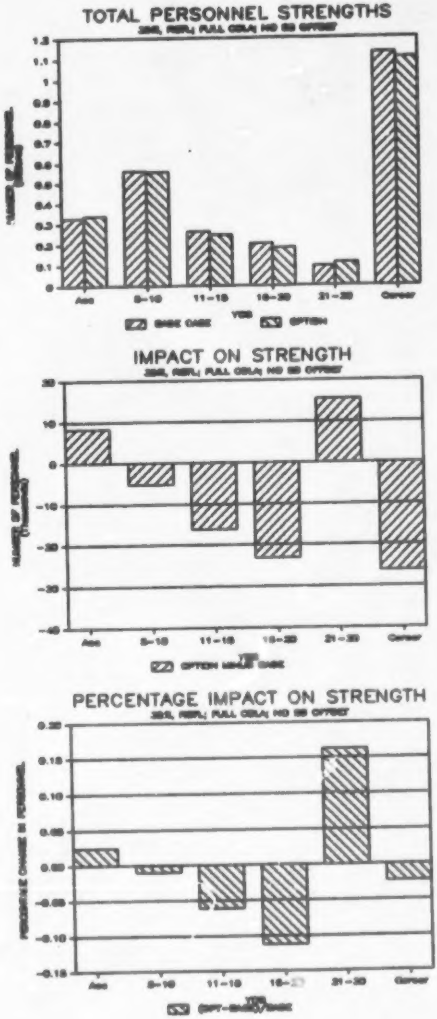


FIGURE A-10

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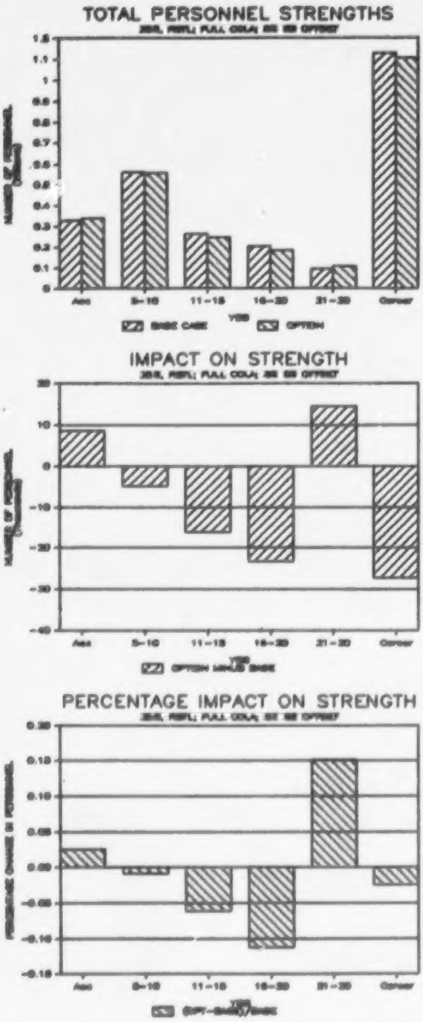
TOTAL PERSONNEL STRENGTHS
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
Acc
5-10
11-15
16-20
21-30
Career
YOS
▨ BASE CASE
▧ OPTION
IMPACT ON STRENGTH
20
10
0
-10
-20
-30
-40
Acc
5-10
11-15
16-20
21-30
Career
YOS
▨ OPTION MINUS BASE
PERCENTAGE IMPACT ON STRENGTH
0.20
0.15
0.10
0.05
0.00
-0.05
-0.10
-0.15
Acc
5-10
11-15
16-20
21-30
Career
YOS
▧ (OPT-BASE)/BASE

FIGURE A-11

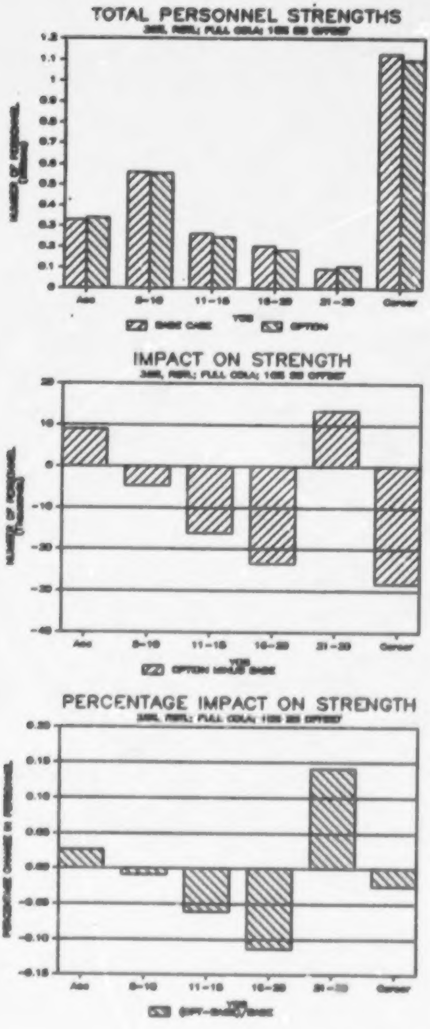

FIGURE A-12

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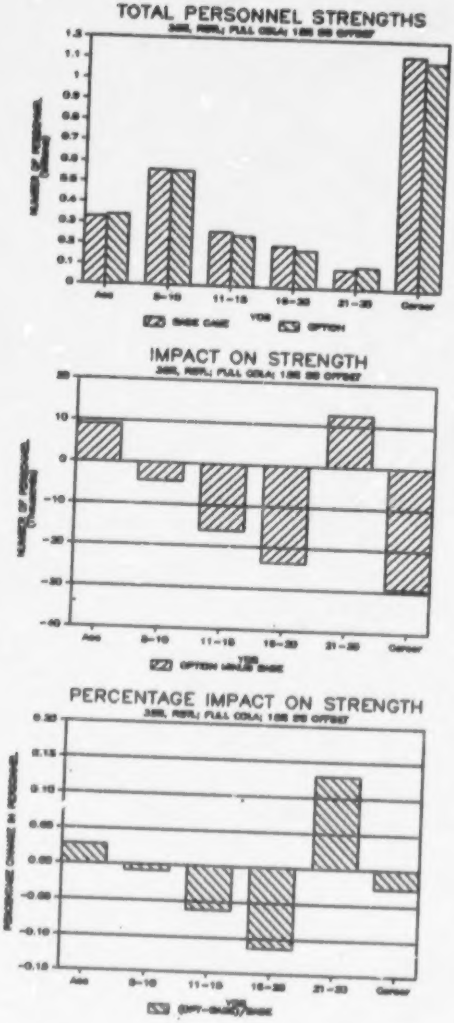

TOTAL PERSONNEL STRENGTHS

IMPACT ON STRENGTH

PERCENTAGE IMPACT ON STRENGTH

FIGURE A-13

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Effect of multiplier changes

This section investigates the effect of changing the multiplier on the force composition. Four options are considered:

- —A multiplier of *40 percent for 20 years of service with a restoral at age 60,* full cost-of-living adjustment, and no social security offset (savings: $1.52 billion)
- —A multiplier of *35 percent for 20 years of service with a restoral at age 60,* full cost-of-living adjustment, and no social security offset (savings: $2.26 billion)
- —A multiplier of *40 percent for 20 years of service with no restoral at age 60,* full cost-of-living adjustment, and no social security offset (savings: $2.32 billion)
- —A multiplier of *35 percent for 20 years of service with no restoral at age 60,* full cost-of-living adjustment, and no social security offset (savings: $3.46 billion)

The impact on the force composition is portrayed in Figures A-14, A-15, A-16, and A-17.

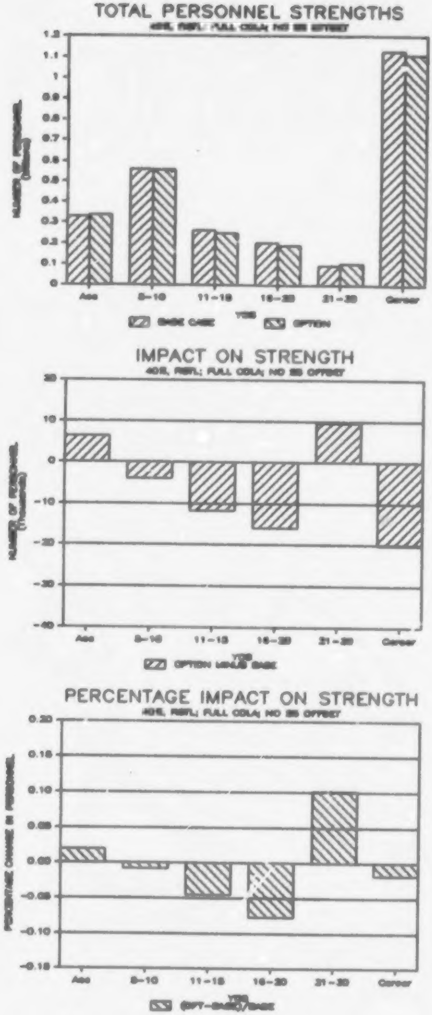
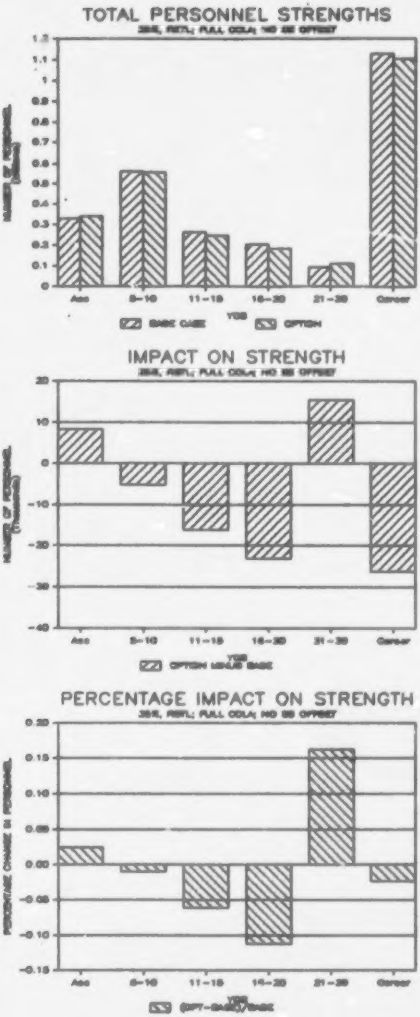

TOTAL PERSONNEL STRENGTHS
40%, REFL; FULL COLA; NO SS OFFSET
NUMBER OF PERSONNEL (Millions)
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
Acc
5-10
11-15
16-20
21-30
Career
YOS
BASE CASE
OPTION
IMPACT ON STRENGTH
40%, REFL; FULL COLA; NO SS OFFSET
NUMBER OF PERSONNEL (Thousands)
20
10
0
-10
-20
-30
-40
Acc
5-10
11-15
16-20
21-30
Career
YOS
OPTION MINUS BASE
PERCENTAGE IMPACT ON STRENGTH
40%, REFL; FULL COLA; NO SS OFFSET
PERCENTAGE CHANGE IN PERSONNEL
0.20
0.15
0.10
0.05
0.00
-0.05
-0.10
-0.15
Acc
5-10
11-15
16-20
21-30
Career
YOS
(OPT-BASE)/BASE

FIGURE A-14



TOTAL PERSONNEL STRENGTHS

30%, REFL; FULL COLA; NO SS OFFSET

IMPACT ON STRENGTH

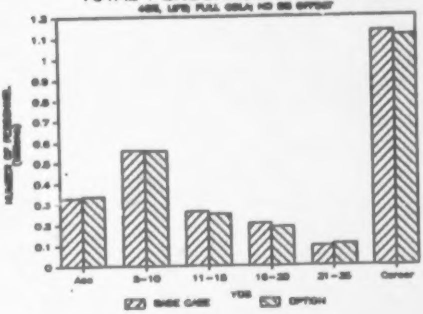
30%, REFL; FULL COLA; NO SS OFFSET

PERCENTAGE IMPACT ON STRENGTH

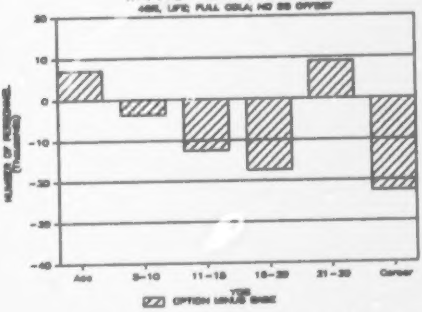
30%, REFL; FULL COLA; NO SS OFFSET

FIGURE A-15

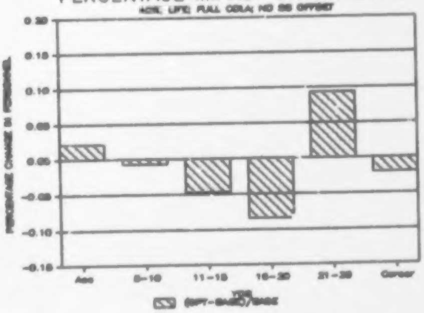
FIGURE A-16



TOTAL PERSONNEL STRENGTHS



IMPACT ON STRENGTH



PERCENTAGE IMPACT ON STRENGTH

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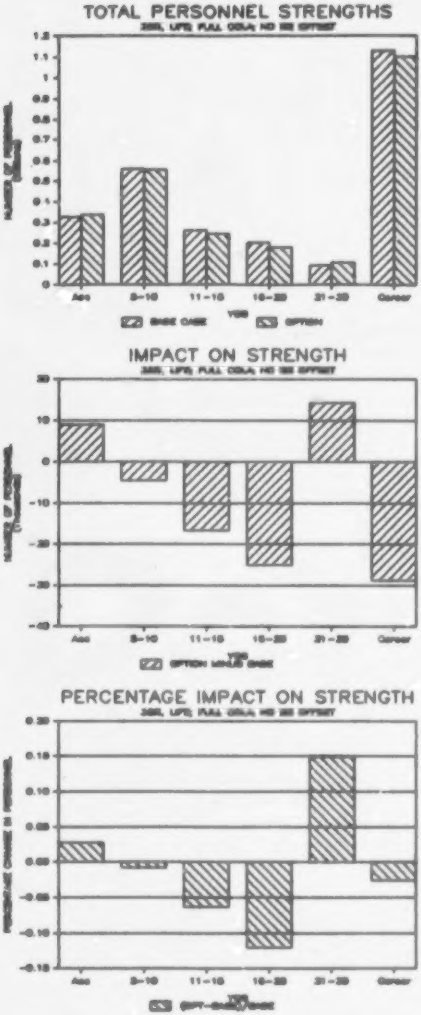
TOTAL PERSONNEL STRENGTHS
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
Acc
5-10
11-15
16-20
21-30
Career
YOS
BASE CASE
OPTION
IMPACT ON STRENGTH
20
10
0
-10
-20
-30
-40
Acc
5-10
11-15
16-20
21-30
Career
YOS
OPTION MINUS BASE
PERCENTAGE IMPACT ON STRENGTH
0.20
0.15
0.10
0.05
0.00
-0.05
-0.10
-0.15
Acc
5-10
11-15
16-20
21-30
Career
YOS
(OPT-BASE)/BASE

FIGURE A-17

Several conclusions can be drawn from the figures:

—Decreasing the multiplier for 20 years of service has a generally positive effect on the 21 to 30 years of service category and a generally negative effect on the 11 to 20 years of service categories. Specifically, the lower the multipler at 20 years of service, the fewer the number of members in the total career force, but the *greater* the number of members who remain beyond 20 years of service.

—Restoring the multiplier at age 60 has very little favorable impact on the force composition relative to the savings foregone.

—The difference between the impacts of the minimum change to the multiplier (the first option described above) and the maximum change to the multiplier (the fourth option described above) is relatively small *in the aggregate.* The difference between the total career forces is less than 1 percentage point. Within the career force, however, the 11 to 20 years of service category differs by about 3 percentage points, and the size of the 21 to 30 years of service category differs by approximately 5 percentage points. The difference in savings, however, is substantial—$1.9 billion.

DEPARTMENTAL VIEWS

The Department of Defense submitted the following report with the draft legislative proposals in accordance with the direction contained in section 667 of the Defense Authorization Act for fiscal year 1986:

THE SECRETARY OF DEFENSE
WASHINGTON, THE DISTRICT OF COLUMBIA

15 NOV 1985

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of
  Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

The enclosed report complies with the requirements of section 667 of the Defense Authorization Act for fiscal year 1986.

Included in the report are drafts of the two pieces of legislation that would change the military non-disability retirement system. Each would result in a reduction in military retirement accrual funding of $2.9 billion in fiscal year 1986 as mandated by the Congress. This is a 16 percent reduction in military retired pay from the current system and is in addition to the 13 percent reduction that was imposed by the Congress in the high-three-year averaging adjustment in 1980.

Although the Department of Defense has prepared the draft legislation as required by the Congress, I want to make it absolutely clear that such action is not to be construed as support for either of the options for change. To the contrary, the Department of Defense is steadfastly opposed to the significant degradation in future combat readiness that would result from the changes required to achieve the mandated reduction. I am particularly concerned about the potential loss of mid-level officers, NCOs and Petty Officers who provide the first-line leadership and technical know-how so vital to the defense mission. Unless offsetting compensation is provided, our models conservatively indicate that our future manning levels in the 10 to 30 year portion of the force would drop below the dismal levels of the late 1970s when aviator shortages and shortfalls in Army NCO and Navy Petty Officer leadership seriously degraded our national security posture.

While the changes we have been required to submit technically affect only future entrants, we expect an insidious and immediate effect on the morale of the current force. No matter how the reduction is packaged, it communicates the same message, i.e., the perception that there is an erosion in support from the American people for the Service men and women whom we call upon to ensure our safety. It says in absolute terms that the unique, dangerous and vital sacrifices they routinely make are not worth the taxpayers' dollars they receive, which is not overly generous. I do not believe the majority of the American people support this view and ask that you consider this in your deliberations on this very crucial issue to our national security.

Sincerely,

Caspar Weinberger

Enclosure

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DOD REPORT TO THE CONGRESS

ON OPTIONS TO

REDUCE MILITARY RETIREMENT ACCRUAL FUNDING

IN FISCAL YEAR 1986

SECTION 1

INTRODUCTION

This report on the military retirement system is submitted in accordance with section 667 of the Department of Defense Authorization Act, 1986.

Military Retirement System: Unlike the majority of retirement programs in the civilian sector, the military retirement system is not an old-age income maintenance plan. Rather, it is designed and intended to operate as an element of the military compensation structure and as an element of the personnel management system. Retired pay has been characterized by the Supreme Court as reduced pay for reduced military service on the basis that members retain their military status, remain subject to the Uniform Code of Military Justice, and are subject to recall to military duty. Indeed, contingency mobilization plans include the recall of retired members to supplement the active standing force and reserve force.

Unlike civilian retirement plans, there are no rights of ownership to military retired pay--receipt is a conditional entitlement subject to the provision of continued enabling legislation. These statutory restrictions and limitations are not resident in any civilian retirement program, public or private, and have been enacted into law recognizing the governmental function to provide for the security and defense of the nation. As such, statutory requirements extend sovereign authority to the retired military community and set aside certain personal freedoms, rights, and entitlements for the common good of the country. This basic function of government--to provide for the defense and protection of the citizenry--has been reflected in the military retirement laws and underlies its basic purpose.

As a personnel management tool, the retirement system operates as a retention incentive and an egress mechanism to shape and sustain the force compatible with the defense requirements and readiness capability that must be maintained to fulfill the national defense mission. Through retirement and separation, the age/skill/experience mix of the active force is kept in proper balance with military requirements. This reflects the necessity of maintaining a youthful and vigorous force capable of sustained combat, of providing a means of enhancing the flow of experience and talent through the force, and of offering a means to remove individuals selectively from the force consistent with the force profile requirements. For individuals it offers an incentive for career commitments, and for management it permits selective retention to maintain a quality force.

Many proponents of change advocate revision based upon cost considerations only without regard to the effect on force composition or readiness capability. Such criticism fails to recognize the national policy to maintain a standing force of at least two million since the mid-1950s. That force size is now reflected in a maturing retirement system--the force size is stabilizing. In concert with continued control of inflation, retired pay growth will stabilize and cease to be a cost growth issue in about 20 years.

Military Service--"A Way of Life": The most common misconception among critics of military compensation is the equating of military service with civilian employment. The two are distinctly different. Military service is distinctly different from civilian employment by the very nature of such service. To be a member of the military service is to agree to accept the surrender of certain personal freedoms. There is no such sacrifice in civilian employment. The Service member can be ordered to go anywhere at anytime. He has taken an oath to serve. If the member does not like the orders he receives, e.g., the location of the next duty station, he cannot change jobs. No civilian job restricts the personal freedom of an individual in this way.

A military career demands long hours of work with no overtime pay, forced family separations, frequent exposure to risk, inability to control one's working and living conditions, the acceptance of a highly disciplined life and the abridgment of individual freedoms. It takes unique people to give of themselves in such measure. While personal satisfaction can be achieved through a military career, Service members know that their personal preferences must be subordinated to the good of the military unit (whether it be an infantry squad or the crew of a ship or aircraft) and of the entire nation. Thus, the call to serve in the armed forces is less a "job" and more "a way of life." Because it is a way of life, body and soul, the compensation structure is entirely different.

The way of life is not limited to the Service member alone. It is a way of life for the military family as well. Military service involves both frequent and lengthy periods of separation from the family. The spouse is forced to assume the role of a single parent with all the pressures and responsibilities that entails. The Service member is often absent as the children grow, when they enter school, and as they attempt to adjust to a new environment incident to frequent moves. The spouse attempts to obtain employment and finds that the periodic moves result in higher unemployment rates and lower salaries for the working military spouse. Finally, the military member and his family realize that many of his civilian counterparts have developed an equity in their home that represents a savings that can be used in old age or to finance the children's education. The periodic moves, time overseas and government housing develop no such savings. The Service member's primary savings is the military retirement pay he has developed through years of service to the nation.

Basic Question: If military retirement benefits are too great or too lucrative as some have claimed, why do so few remain for a career? The fact is that given existing pay and the existing military retirement system, additional reenlistment bonus funding has been required to retain Service members. The reduced retirement benefit implemented in 1980 for new entrants--high-3--has decreased the average value of military retirement pay by 13 percent. This reduction will affect retention in the early 1990s as Service members reach their second reenlistment point and evaluate military retirement pay as an incentive.

Events Leading to This Report: Until 1984, military retired and retainer pay was financed on a "pay-as-you-go" basis. Funds to defray the costs of retired and retainer pay entitlements of retired military personnel were appropriated annually by Congress and charged to the Department of Defense operating budget. Partially because this method of financing military retirement pay did not adequately recognize the future costs of current manpower and force-structuring decisions, and partially because it was not consistent with the then-current practice of private sector employers under the Employee Retirement Income Security Act of 1974, Congress adopted, in the Department of Defense Authorization Act, 1984, a requirement to establish a Department of Defense Military Retirement Fund (see sections 1461 through 1467 of title 10, United States Code).

Accordingly, the Department of Defense now "pays" for military retirement benefits when they are being earned by members of the active duty force and the selected reserve, not when such members later become entitled to benefits. Actuarially determined payments that represent the accrued cost of future military retirement payments attributable to a given year's service by members of the armed forces are made to the Fund for that year. Because such payments appear in the Department of Defense personnel budget each year, the Congress reviews future retirement costs annually.

In reviewing the Department of Defense's proposed budget for fiscal year 1986 for authorization purposes, both the House and Senate Committees on Armed Services recommended a ceiling on the total dollars available for transfer to the Military Retirement Fund. The Senate recommended a reduction of $1.8 billion, while the House recommended $4 billion. The Committee of Conference on S. 1160 agreed on $2.9 billion.

Pursuant to that agreement, the Secretary of Defense was instructed to submit two alternative proposals for changing the non-disability retirement system to achieve the $2.9 billion reduction. One of the proposals was to achieve the required reduction by changes to the military retirement system other than by changing the procedure for periodic cost-of-living adjustments, i.e., structure-only change; the second was unconstrained.

The Congressional guidance provided that changes should not apply to any individual already retired or to any individual who had entered the military before the effective date of the legislation; that such changes should, to the extent compatible with military requirements, encourage members who become eligible for retirement after completing 20 years of service to remain on active duty; and that the actuarial methods and assumptions used to calculate the savings shall be the same as those approved by the Board of Actuaries for use in calculating the military retirement accrual funding in the President's budget for FY 86.

Report: The report is organized into six sections and responds to the specific requests of Congress as follows:

- This, the first section, provides background information on the military retirement system, summarizes events leading to the report, and provides an outline of the report.

- The second describes the two options developed in response to Congressional direction to reduce retirement accrual funding by $2.9B in FY 86.

- In the third section, several quantitative methods are used to analyze the impact of these options on the individual, on retention and recruiting and on combat readiness.

- The fourth section provides the Department's views on a four-year transition plan.

- In the fifth section, the Department's views are provided on adjustments to other personnel or military compensation policies that would be required should retirement benefits be reduced.

- Finally, the sixth section analyzes the impact of the five specified levels of military retirement accrual funding reduction--$1.8B, $2.9B, $3.6B, $4.0B, and $5.4B--employing the quantitative methods used to analyze the impact of the two options in the third section.

Tables and figures are included in the sections they support. The draft legislation for the two options to reduce retirement accrual by $2.9B in FY 86 are attached as Appendix A and B.

SECTION 2

TWO OPTIONS TO ACHIEVE A $2.9B REDUCTION IN RETIREMENT ACCRUAL FUNDING IN FY 86

As directed by the Congress, the Department of Defense has developed two options to reduce retirement accrual funding by $2.9B in FY 86. The $2.9B savings would occur if the new system applied as of October 1, 1985, to new entrants only. All current and former Service members would be totally grandfathered, i.e., would continue to accrue retirement benefits under the retirement system currently in effect for them.

Development of these two options and submission to the Congress should not be construed to mean that the Department of Defense supports either option. To the contrary, the Department is opposed to this significant reduction in military retirement benefits for the men and women who will serve their country in uniform in the future.

Of the two options submitted, one is a structure-only change involving reduced multipliers for years of service and incorporating high-5 (highest 60 months' basic pay) as the basis for determining retirement pay. The other is a combination option which includes reduced multipliers and a reduction to the cost-of-living adjustment (COLA). The combination option assumes high-3 (highest 36 months' basic pay) as the basis for determining retirement pay, which has been in effect for new entrants since September 8, 1980.

The two options are:

o Structure-only

- Basis: high-5, retired pay computed based on highest 60 months' basic pay
- Multipliers:
  - 2.15 percent per year for years 1-20
  - 3.2 percent per year for years 21-30
- COLA: existing system of full CPI

o Combination

- Basis: existing high-3 system for new entrants
- Multipliers:
  - 2.2 percent per year for years 1-20
  - 3.1 percent per year for years 21-30

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- COLA: Non-disability retirees would receive CPI-1 for life with restoral at the 40th anniversary of entry into service. Retirees would receive a COLA of the percentage increase in the Consumer Price Index minus one percentage point (CPI-1) for life with a one-time restoral. Restoral is defined as recomputing retirement pay at that point assuming full CPI had been in effect. Disability retirees and survivors receive full CPI protection.

The following major considerations guided the development of these options:

- Any revision to the military retirement system will apply only to those entering after the enactment of the revision.

- The Services must maintain a youthful and vigorous force relative to the labor force of society as a whole or the civil service labor force for that matter.

- The initial retirement eligibility point of 20 years of service should be maintained both to provide the youthful and vigorous force and to provide the necessary career incentive for those serving in the relatively greater arduous duty locations.

- The multipliers (percent of basic pay per year of service) are the most visible aspects of any revision.

- The revision should provide an incentive for all to serve 20 years of service, yet encourage members to remain on active duty past 20 years of service.

- The requirements of a youthful and vigorous force as implemented by the Defense Officer Personnel Management Act and Service policies result in the forced retirement of Service members from the military. Thus, the duration of retirement from the military is longer, and without restoral a reduced COLA would unduly lower the real value of retired pay in old age.

SECTION 3

IMPACT OF REDUCING RETIREMENT BENEFITS TO ACHIEVE A $2.9B SAVINGS IN FY 86

There are several quantitative ways to view the impact of the two options submitted and they will be presented in this section.

First, the reduction of $2.9B in FY 86 retirement accrual payments equates to a reduction of 16 percent--original figure for FY 86 was $18.2B. As the actuarial method for FY 86 involved costing the accrual payment based on the retirement benefit available for individuals entering the armed forces in FY 86, the reduction translates directly to a 16 percent reduction in retirement benefits for such individuals. This reduction in benefits is independent of the option selected--the two submitted or any others developed that also would save $2.9B. Further, this reduction is an addition to the 13 percent reduction on high-3--implemented in 1980 for all new entrants. It is intuitively obvious that an additional 16 percent reduction in future retirement benefits will be a disincentive for reenlistment and to a lesser degree for initial enlistment. Surveys conducted by the armed forces at reenlistment have repeatedly found that the military retirement system is the single greatest factor influencing decisions to reenlist. An additional 16 percent reduction in benefits could significantly degrade the Department of Defense's ability to maintain the personnel required for combat readiness.

A second view of the impact of such change is to look at the degradation of initial retirement pay. Table 1 displays the initial percentage of final basic pay that typical retirees receive currently upon retirement, that those entering since September 1980 who are under high-3 will receive, and what would be received under the two options. Whereas the current retiree receives from 50 percent to 75 percent of basic pay depending upon years of service, even without further change to the military retirement system this range will be reduced to from 45 percent to 69 percent for Service members entering since 1980. The options would further reduce retirement pay to 36 percent of basic pay for the 20-year retiree under the structural-only option, and 40 percent under the combination option.

As retirement pay is calculated on the basis of a portion of total pay, basic pay only, Table 2 provides information similar to Table 1 but shows initial retirement pay as a percentage of final total pay, excluding special pays such as aviator continuation incentive pay, sea pay, etc. The special pays have been excluded as they vary significantly for individuals; however, if included the percentages in Table 2 would be lower. This Table dispels the myth that a Service member retires at half pay after 20 years of service. Those retiring today receive only 34 percent of final pay, and the younger Service members will receive only 31 percent of final pay after 20 YOS. Under the structure-only option, the 20-year retiree would receive 25 percent of final pay and those serving 30 years or more would receive only 46 percent of final pay. For the combination option, the percentages of final pay would be 27 for 20 years and 50 for 30 years or more.

Next, the impact on individual retired pay over time is exhibited in Figures 1 and 2. Monthly retired pay is displayed for typical officer and enlisted retirees currently retiring, for those who entered after September 1980 and will retire under high-3, and for the two options. The initial retired pay shows the effect of high-5 combined with the multiplier reduction for that alternative. The value of retired pay with respect to inflation or real retired pay over time for the retirees is displayed to capture the effect of the COLA reduction. As previously stated, both options reduce current benefits by 16 percent. As Figures 1 and 2 reveal, the combination option provides relatively more retired pay initially and less retired pay prior to restoral at the 40th anniversary, more retirement pay following restoral and less in old age due to the COLA reduction. The typical enlisted retiree initially would receive $941 per month currently, $813 under high-3, $684 per month under the structure-only option and $743 per month under the combination option. Whereas the real monthly retired pay would be maintained for the structure-only option, it would decrease to $623 at age 75 under the combination option. Without the absolutely necessary restoral feature, the effect of a continuous CPI-1 would reduce the real value of retired pay to $522 at age 75. Given the nature of a military career as previously discussed, the High-3 system which applies to Service members who entered since 1980 provides only $813 per month to the typical enlisted retiree and $1838 per month to the typical officer retiree is far from "lavish" and is considered the minimum amount necessary to provide the incentive for young Americans to opt for a career in the armed forces, anticipating periods of war as well as peace.

Finally, Tables 3 through 6 display the impact of the options on recruiting and retention. These tables were formulated using the recruiting and retention model developed for use by the recently completed Fifth Quadrennial Review of Military Compensation. As can be seen, the impact of both options is similar. It should be noted that, as directed by the Authorization Language, the tables shown in this report were generated using retention data from the 1976-82 time period (i.e., the final Fifth QRMC data). Current retention behavior has improved over the levels experienced then. If we were to assume that current retention rates are the best estimates of retention in the long run, then the effect on the career force would be less than projected compared to today's force, but the relative effects would be about the same.

Assuming today's total force size, Tables 3 through 6 display the change in force size at various experience levels (years of service) resulting from a change in retention and the concomitant increase in accessions required to sustain the force size. The resultant force projected for the options is a steady-state force. In other words, it is the force that would result in the long run, after the effect of the change to the military retirement system had stabilized.

The effect of the options is shown first relative to today's force (7-year average) which includes a career force whose retention decisions were based on a retirement system wherein retired pay is calculated based on terminal pay, i.e., not high-3. Then the projected impact of high-3, which will affect all Service members entering since September 7, 1980, and the impact of the options relative to it are displayed.

Relative to today's force (Tables 3 and 5), the options would significantly reduce the experience level of the enlisted force as can be seen by the reduction of 38 to 39 thousand Service members in the 11-20 year group and 19 to 20 thousand Service members in the 21-30 year group. Such a hemorrhage of experience--approximately 12 percent of the mid-grade force and 35 percent of the senior force--would significantly reduce combat readiness. The complexity of warfare today and in the future exacerbates the degradation in combat readiness which would result from the loss of experienced officers, non-commissioned officers and petty officers. This degradation in combat readiness would be the direct result of a loss in leadership capability and overall technical expertise. Even a sizable increase in training funds for careerists could not totally alleviate the problem. Concomitantly, the options would increase the number of accessions required by 20 thousand. Given the improving economy and in particular the reduced unemployment rate, this would place a significant burden on our recruiting force. In FY 86 the Department of Defense will spend approximately $1.5B on recruiting. Given the degradation in the military retirement system incentive, recruiting costs would most likely exceed the 6 percent or $90M in FY 86 dollars indicated by a proportional increase. Likewise, recruit training costs would increase as would other first-term training costs and permanent change of station and temporary duty costs.

The impact of high-3 for those entering since September 1980 has not had time to materialize as few have faced the first reenlistment decision and none have reached the subsequent reenlistment decisions which shape the force. Nevertheless, the options are presented relative to high-3 as well. As can be seen in Tables 4 and 6, the impact of the options relative to high-3 is similar but not as great. The exception is that while fewer Service members would opt for a military career (reduction in the 11- to 20-year group) more of those who remained for 20 YOS would choose to remain longer.

The effect on recruiting and retention shown in Tables 3 through 6 is the output of the modified Annualized Cost of Leaving (ACOL) model used by the 5th Quadrennial Review of Military Compensation. While this model takes into account the direct effect of a reduction in retirement benefits, it does not take into account the change in propensity to serve in the armed forces resulting from a perception that such a reduction by the Congress is indicative of the nation's placing less value on such service. Such a perception would exacerbate the impact on retention and recruiting.

In the final analysis, the impact of a change to the military retirement system required to reduce accrual costs by $2.9B in FY 86 would

- reduce individual retirement benefits an average of 16 percent and could

- significantly decrease the career content, experience level, leadership capability and technical expertise of the armed forces

- increase required accessions, recruiting costs, training costs and permanent change of station costs

- significantly degrade the combat readiness of the armed forces and the Department of Defense's ability to meet national security objectives.

TABLE 1

Initial Military Retired Pay As A Percentage of Final Basic Pay *

Years of Service At Retirement	Option			
	Current	Hi-Three	Structure Only	Combination
20	50.0%	45.3%	36.3%	39.8%
21	52.5	48.1	39.5	43.2
22	55.0	47.6	40.0	43.4
23	57.5	51.1	43.5	47.3
24	60.0	54.4	46.9	51.2
25	62.5	57.8	50.3	55.0
26	65.0	53.6	47.9	52.6
27	67.5	58.1	52.3	56.6
28	70.0	62.6	56.3	61.6
29	72.5	67.1	60.2	66.5
30	75.0	69.3	64.3	69.3

* The effect of averaging basic pay in computing initial retired pay varies by paygrade. Figures shown are for grade E-7.

The computation of percentages are based on the following: Current-based on final basic pay and applies to members who entered service prior to September 8, 1980; Hi-Three-based on average of high three basic pay and applies to members who entered service on or after September 8, 1980; Structure Only-based on average of high five basic pay; Combination-based on average of high three basic pay.

Computation of basic pay assumes a 6.2% pay growth and accounts for longevity increases but not for promotions. Excluding promotions understates the effect of averaging basic pay to compute initial retired pay.

TABLE 2

Initial Military Retired Pay As A Percentage of Final Total Pay *

Years of Service At Retirement	Option			
	Current	Hi-Three	Structure Only	Combination
20	34.3%	31.1%	24.9%	27.3%
21	36.0	33.0	27.2	29.6
22	38.4	33.2	27.9	30.3
23	40.1	35.6	30.4	33.0
24	41.9	38.0	32.7	35.7
25	43.6	40.3	35.1	38.3
26	46.6	38.4	34.3	37.0
27	48.4	41.7	37.5	40.5
28	50.2	44.9	40.3	44.1
29	52.0	48.0	43.2	47.7
30	53.8	49.7	46.1	49.7

* The effect of averaging basic pay in computing initial retired pay varies by paygrade. Figures shown are for grade E-7.

The computation of percentages are based on the following: Current-based on final basic pay and applies to members who entered service prior to September 8, 1980; Hi-Three-based on average of high three basic pay and applies to members who entered service on or after September 8, 1980; Structure Only--based on average of high five basic pay; Combination-based on average of high three basic pay.

Computation of basic pay assumes 6.2% pay growth and accounts for longevity increases but not for promotions. Excluding promotions understates the effect of averaging basic pay to compute initial retired pay.

FIGURE 1

ENLISTED

MONTHLY RETIRED PAY - 1985 DOLLARS
ALTERNATIVE SYSTEMS E-7 W/22 YOS

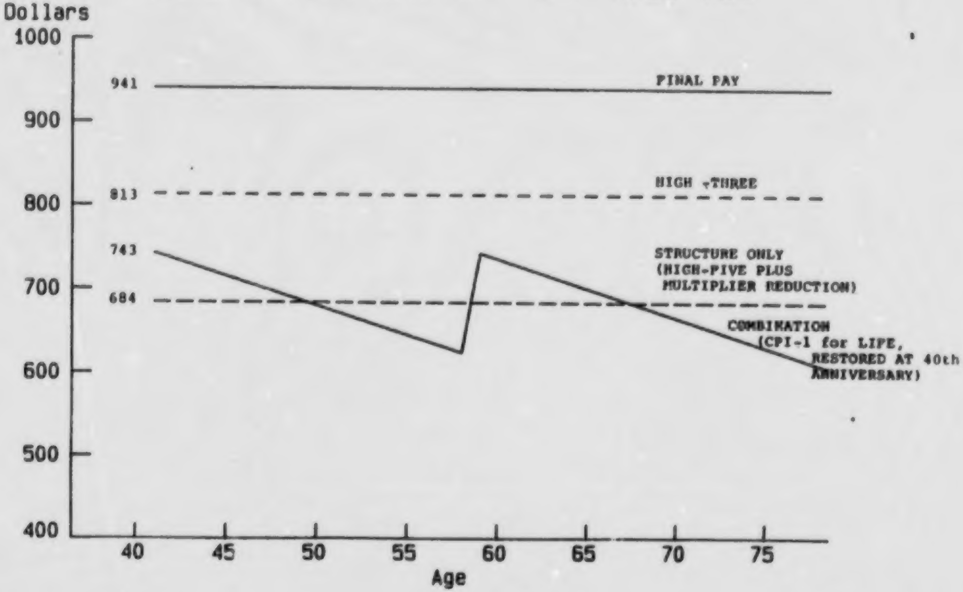

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FIGURE 2

OFFICER

MONTHLY RETIRED PAY - 1985 DOLLARS
ALTERNATIVE SYSTEMS O-5 W/23 YOS

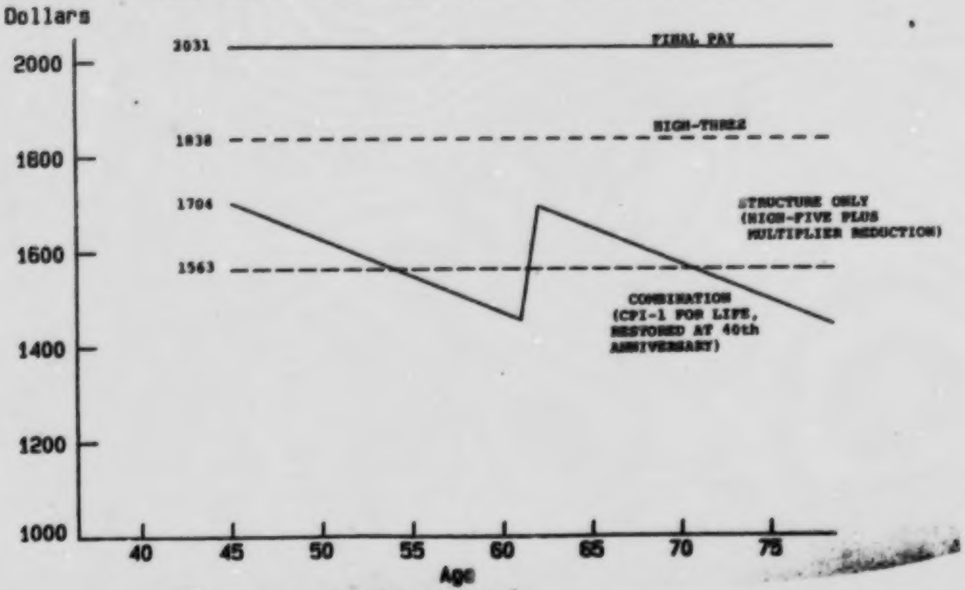

TABLE 3

IMPACT RELATIVE TO TODAY'S FORCE

ENLISTED

	TODAY'S 7-YR AVG	STRUCTURE-ONLY OPTION	COMBINATION OPTION
ACCESSIONS	332,548	352,895	352,743
DIFF		20347	20195
%CHANGE		6.1	6.1
(YOS) 1-4	1,030,730	1,091,797	1,091,423
DIFF		61067	60693
%CHANGE		5.9	5.9
(YOS) 5-10	389,129	386,499	386,647
DIFF		-2630	-2482
%CHANGE		-0.7	-0.6
(YOS) 11-20	329,617	291,468	290,358
DIFF		-38149	-39259
%CHANGE		-11.6	-11.9
(YOS) 21-30+	55,262	34,977	36,310
DIFF		-20285	-18952
%CHANGE		-36.7	-34.3
(YOS) 5-20	718,746	677,967	677,005
DIFF		-40779	-41741
%CHANGE		-5.7	-5.8
(YOS) 5-30+	774,008	712,944	713,315
DIFF		-61064	-60693
%CHANGE		-7.9	-7.8

TABLE 4

IMPACT RELATIVE TO FORCE WITH HIGH-3 AVERAGING

ENLISTED

	TODAY'S 7-YR AVG	FUTURE HI-3	STRUCTURE-ONLY OPTIONS	COMBINATION OPTIONS
ACCESSIONS	332,540	340,315	352,895	352,743
DIFF			12580	12428
%CHANGE			3.7	3.7
(YOS) 1-4	1,030,730	1,054,389	1,091,797	1,091,423
DIFF			37408	37034
%CHANGE			3.5	3.5
(YOS) 5-10	389,129	390,308	386,499	386,647
DIFF			-3809	-3661
%CHANGE			-1.0	-0.9
(YOS) 11-20	329,617	320,978	291,468	290,358
DIFF			-29510	-30620
%CHANGE			-9.2	-9.5
(YOS) 21-30+	55,262	39,061	34,977	36,310
DIFF			-4084	-2751
%CHANGE			-10.5	-7.0
(YOS) 5-20	718,746	711,286	677,967	677,085
DIFF			-33319	-34201
%CHANGE			-4.7	-4.8
(YOS) 5-30+	774,008	750,347	712,944	713,315
DIFF			-37403	-37032
%CHANGE			-5.0	-4.9

TABLE 5

IMPACT RELATIVE TO TODAY'S FORCE

OFFICERS

	TODAY'S 7-YR AVG	STRUCTURE-ONLY OPTION	COMBINATION OPTION
ACCESSIONS	25,775	27,788	27,852
DIFF		2013	2077
%CHANGE		7.8	8.1
(YOS) 1-4	93,764	100,532	100,848
DIFF		6768	7084
%CHANGE		7.2	7.6
(YOS) 5-10	81,398	83,416	83,505
DIFF		2018	2107
%CHANGE		2.5	2.6
(YOS) 11-20	73,772	67,977	67,870
DIFF		-5795	-5902
%CHANGE		-7.9	-8.0
(YOS) 21-30+	20,967	17,878	17,674
DIFF		-3089	-3293
%CHANGE		-14.7	-15.7
(YOS) 5-20	155,170	151,393	151,375
DIFF		-3777	-3795
%CHANGE		-2.4	-2.4
(YOS) 5-30+	176,137	169,271	169,049
DIFF		-6866	-7088
%CHANGE		-3.9	-4.0

TABLE 6

IMPACT RELATIVE TO FORCE WITH HIGH-3 AVERAGING

OFFICERS

	TODAY'S 7-YR AVG	FUTURE Hi-3	STRUCTURE-ONLY OPTIONS	COMBINATION OPTIONS
ACCESSIONS	25,775	26,572	27,788	27,852
DIFF			1216	1280
%CHANGE			4.6	4.8
(YOS) 1-4	93,764	96,437	100,632	100,848
DIFF			4195	4411
%CHANGE			4.3	4.6
(YOS) 5-10	81,398	82,114	83,416	83,505
DIFF			1302	1391
%CHANGE			1.6	1.7
(YOS) 11-20	73,772	72,447	67,977	67,870
DIFF			-4470	-4577
%CHANGE			-6.2	-6.3
(YOS) 21-30+	20,967	18,912	17,878	17,674
DIFF			-1034	-1238
%CHANGE			-5.5	-6.5
(YOS) 5-20	155,170	154,561	151,393	151,375
DIFF			-3168	-3186
%CHANGE			-2.0	-2.1
(YOS) 5-30+	176,137	173,473	169,271	169,049
DIFF			-4202	-4424
%CHANGE			-2.4	-2.6

SECTION 4

IMPLEMENTATION PLAN

The Authorization Bill further requests DoD to submit a plan for implementing the options submitted over a four-year period. If the military retirement system is to be degraded in spite of the DoD's objections, the Department requests the change be implemented in full rather than over a four-year period for the following reasons:

(1) The options to the retirement system must reduce the accrual funding to the military retirement fund by $2.9B in FY 86. Thus, that portion of any total change which is implemented in FY 86 must save $2.9B in that year. Any portion of the total change deferred for implementation in the next three years would increase the total degradation of the military retirement system beyond that contained in the options submitted.

(2) The retirement benefit for today's Service members who entered before September 7, 1980, is based on final pay. For those entering after that date, it is based on highest 36 months (High-3). A change to the system will introduce a third class of Service members with respect to retirement pay. Such is far from desirable but definitely preferable to not grandfathering individuals who entered the service and chose to remain under a previous retirement system. However, a four-year phased implementation of either option submitted would create unnecessary additional classes which would be unacceptable.

SECTION 5

OFFSETS FOR FURTHER DEGRADATION OF THE MILITARY RETIREMENT SYSTEM

The accrual reduction of each option as determined by the DoD Actuary was calculated employing the methods and economic assumptions used to submit the accrual funding requirement in the President's budget. As such, the $2.9B reduction is determined by changing the retirement benefits and then applying those benefits to the force structure used to calculate the accrual payment for FY 86. In other words, the benefit is changed and the accrual reduction is determined based upon recent retention rates and today's force size. If the significant degradation to the career force projected actually occurs, the accrual reductions are substantially underestimated. On the other hand, one can argue that the nation will not degrade its national security and additional funding in the form of pay, bonuses and training will be appropriated to offset the change to the retirement system. If so, the reduction to retirement accrual is not overstated, but the net projected reduction to the DoD budget will be significantly less. As an aside, the accrual reduction decreases the DoD budget but has no effect on overall federal outlays nor the deficit for approximately 20 years.

Projecting the amount of funding and its form, i.e., pay raises, bonuses, etc., that would be required to offset the lower retention resulting from reducing the retirement element of compensation is difficult, to say the least. For example, high-3 was implemented in 1980 for new entrants at a time of extremely low retention resulting from successive pay caps. The pay raises and other compensation initiatives (e.g., the variable housing allowance) authorized and appropriated by the Congress in 1980 and 1981 resulted in significantly improved retention and most likely mitigated the potential initial impact of high-3. Furthermore, surveys and analyses reveal that while the retirement system is a major incentive for the first reenlistment decision, it becomes an even more significant factor affecting reenlistment decisions of Service members with eight to ten years of service and thereafter. As high-3 affects only those entering in the last five years, insufficient time has passed to determine the compensation changes that will be required to offset this 1980 change to the military retirement system. These facts significantly hamper the Department's ability to project the increases to compensation that would be required to offset further change.

Nevertheless, the following Congressional actions would be prudent if the military retirement system is again changed to further reduce military retired pay and the retention incentive of the system.

o Ensure military pay remains fair, competitive and comparable with pay in the private sector,

o Quickly respond to requests to increase bonus levels and total bonus funding, o Fully fund requests to increase non-pay components of compensation such as medical and dental care for dependents, military housing, permanent change of station allowances and other elements affecting the Service member and the military family.

o Be receptive to the necessity either to overturn the change implemented or to consider and test other alternatives that may be proposed by the Department, such as lump-sum payments or an Individual Career Investment account.

SECTION 6

EVALUATION OF SPECIFIED LEVELS OF REDUCTION IN RETIREMENT ACCRUAL FUNDING

The Defense Authorization Act for FY 86 further requested an evaluation of the effects of reducing the retired accrual payment by $1.8B, $2.9B, $3.6B, $4.0B, and $5.4B in FY 86. Specific options for the four other levels were not developed. However, the relative impact of these changes can be captured by assessing the effects of structural-only alternatives, which include high-5 and reduced multipliers, rounded to the nearest tenth of a percent. These alternatives are:

Reduction ($B)	Pay Basis	Multiplier (%)	
		Years 1-20	Years 21-30
1.8	High-5	2.4	2.7
2.9	High-5	2.15	3.2
3.6	High-5	2.0	3.5
4.0	High-5	1.9	3.7
5.4	High-5	1.6	4.3

The effect of the alternatives will be presented in a manner similar to that presented for the two options. First, each of the five levels can be translated directly into a percentage reduction in retirement benefits. The $1.8B reduction is a 10 percent reduction in retirement benefits, whereas $2.9B reduces it 16 percent, $3.6B reduces it 20 percent, $4.0B reduces it 22 percent, and $5.4B reduces it 30 percent. The greater the reduction in retirement benefits, the greater the negative effect on retention and recruiting, though for technical reasons discussed below this relationship is not proportional.

Again, the effect of these five levels can be viewed by looking at the degradation of initial retirement pay as a percentage of final basic pay (Table 7) and as a percentage of total pay (Table 8). The previously discussed caveats for total pay apply. Without further reduction of military retired pay, new entrants in FY 86 would receive 45 percent of final basic pay and 31 percent of final total pay when retiring after 20 years of service. The percentages for 30 years of service would be 69 percent and 50 percent, respectively. The figures for retirement pay as a percentage of total pay are overestimated in that they do not account for the effect high-5 averaging has on pay due to promotions during the last five years of service, nor do they include special pays. Nevertheless, 31 percent of final pay for 20 years' service and 50 percent for 30 years' service is not lavish. In fact, the Department of Defense is concerned that such percentages may be insufficient to provide the necessary career incentive in the 1990s to those who entered service after 1980. The alternative levels of accrual reduction would further reduce retirement pay. As can be seen in Table 8, at the extreme case of a $5.4B reduction, retired pay as a percentage of total pay would be reduced to 18 percent for 20 years of service and 46 percent for 30 years of service, virtually eliminating retired pay as a career incentive.

The effect on retired pay for typical enlisted and officer retirees is shown in Figures 3 and 4. In all cases--today's retirees, high-3 retirees and the five levels of reduction under high-5--retired pay is assumed to be fully protected against inflation. Current retired pay levels will be reduced significantly by the effect of high-3 when Service members who entered since 1980 retire. Thus, the retired pay for the typical enlisted retiree who entered service in FY 86 will be only $813 per month (Figure 3). For the typical officer, the figure for 23 years' service will be $1838 per month (Figure 4). The alternative levels of accrual reduction would further reduce these figures. At the $5.4B level, the typical enlisted would receive $562 per month and the officer $1335 per month. Thus, further reduction of military retired pay will unduly decrease the effect of the military retirement system as a career incentive and under-compensate Americans who choose to serve their country as careerists in times of both peace and war.

Finally, Tables 9 through 12 display the impact on retention and recruiting for the five levels of retirement accrual reduction using the ACOL model developed by the 5th Quadrennial Review of Military Compensation. Again, the impact is shown for enlisted personnel and for officers, first in relation to Service members retiring today (Tables 9 and 11) and then in relation to high-3 retirees, those who entered since 1980 (Tables 10 and 12). As one would expect, the reduction in numbers of mid-grade officers, non-commissioned officers and petty officers increases progressively as the level of accrual reduction increases. The loss of mid-grade enlisted personnel ranges from 8 percent to 16 percent compared to today's force and from 5 percent to 14 percent compared to the projected high-3 force. The losses are similar for mid-grade officers. In contrast, the number of officers and enlisted personnel progressively increases in absolute terms for the 20-30+ year groups. Nevertheless, there is significant loss of senior personnel. For the senior enlisted leadership, the loss ranges from 42 percent to 20 percent with respect to today's force. For senior officers, the range of losses is from 18 percent to 9 percent for today's force. The losses are similar for both senior enlisted personnel and senior officers with respect to the projected high-3 force, with one exception. The gain shown for the $5.4B level results from the characteristics of the model that will be discussed in subsequent paragraphs and from the fact that the model is unconstrained by Congressionally imposed grade limitations for officers and senior enlisted personnel (E-8/E-9). The net result is a progressive decrease in available leadership capability and technical expertise, and increased accessions, recruiting costs, first-term training costs and permanent change of station costs.

Inspection of Table 9 and Table 11 reveals that there is not a direct, proportional relationship between the actuarial estimates of accrual cost savings from a change in the retirement system, and the impact that change has on force manning. A change in the system that saves $1.8B, for example, reduces the size of the enlisted career force (YOS 5-30+) by 6 percent and the size of the officer force by 3 percent, relative to today's force. However, moving from a system which the actuary estimates will save $4.0B to one that saves $5.4B, an increase in accrual savings of $1.4B, has a negligible impact on enlisted and officer force manning, as measured by the number of members with five or more years of service.

The reason for the absence of a direct relationship between accrual cost savings and force impact is a fundamental difference between the assumptions required for the actuarial model generating the accrual estimates and the way the retention effects are modeled in the Annualized Cost of Leaving (ACOL) model. The estimates of accrual cost savings resulting from a change in the retirement system assume that retention rates, and therefore numbers of people leaving at each year of service, are unaffected by the change in the retirement system. The retention model, on the other hand, assumes that members adjust their retention behavior as their financial incentives change.

Consider, for example, the force impact of the alternative that saves $1.8B in accrual costs. The ACOL model predicts that retention rates prior to 20 years of service decline. However, individuals with less than 20 years of service will still look primarily to the 20-year retirement point in calculating the financial advantage of staying in military service. The incentive to remain beyond 20 years of service, once the 20-year point is achieved, increases, but only modestly. Now consider the effect on force manning from doubling the accrual savings (from $1.8B to $3.6B). Even with the effect of high-3 removed, as in Table 10, the additional impact is less than twice the impact of the original $1.8B cut in accrual. The reason for this is, primarily, the incentive to remain beyond 20 years of service, once the 20-year point has been reached, increases dramatically relative to the $1.8B reduction. Retention rates beyond the 20-year point increase, offsetting partially the decline in retention rates prior to 20 years of service.

When moving from the option that saves $3.6B in accrual costs to the one that saves $5.4B, the force manning impact is much less than could reasonably be inferred from the previous cases. There are two reasons for this. First, as in the previous instance, the incentive to remain in service beyond the 20-year point, once the 20-year point is reached, increases substantially. Hence, the increase in post-20-year of service retention rates offsets, partially, the decline in retention rates prior to 20 years of service. The second reason is related to how the ACOL model works. For a member at, say, the tenth year of service, the difference in the financial incentive to stay when comparing the system implied by the $3.6B reduction in accrual costs to that of the $5.4B reduction, when the twentieth year of service is used as the "time horizon" for the calculation, is large. However, as one pushes this time horizon beyond the twentieth, the differential financial incentive becomes less and less, until it disappears at the thirtieth year of service. The ACOL model is constructed to search for the "horizon" which provides the greatest financial incentive to stay, for this is implicitly how an optimizing military member views the problem. In the last three levels of retirement change, the ACOL model is beginning to look at horizons beyond the 20-year point, for some reenlistment decisions before the twentieth year. Hence, the relative changes in the retention incentive of alternative retirement systems as computed by the ACOL model will not always be consistent with the relative changes in cost as computed by the actuarial model that employs assumptions and methods peculiar to actuarial science.

The models developed by the 5th Quadrennial Review of Military Compensation (5th QRMC) are good models, but this is not to say that they are uniquely the best. Models which project the effect of a major change of a magnitude that has not been observed in the past are extremely sensitive to assumptions. In this case, the projections of the effect of change to the retirement system on force structure are highly sensitive to discount rates which represent the individual's preference of pay over time and to continuation rates which incorporate the effect changes in benefits have on retention.

For example, the Army has developed its version of the ACOL model to project the impact of retirement changes which incorporates lower personal discount rates and higher elasticities. Some studies show that people decrease their retirement assets at an implicit discount rate which is very low. People value the certainty of retirement pay highly. This implies that the present value of retirement income could be larger than the 5th QRMC's estimate; and therefore people will be more sensitive to reductions in retirement.

The elasticities used in the 5th QRMC models were estimated from changes in reenlistment bonuses. These elasticities relate the effect that a temporary change in income will have on behavior. However, a change in retirement is a permanent change in income. One could expect much more significant effects from a permanent change. Further, the 5th QRMC estimates of elasticity were made using data collected when the current retirement system was in effect. A significant change in retirement could substantially alter the attractiveness of a military career. No one knows what continuation rates will be after a major change in retirement. Using elasticities estimated from temporary changes in income and continuation rates in effect under the current retirement system could produce an optimistic effect compared to what will occur if retirement benefits are reduced.

As a result of the change in the personal discount rate and continuation rates used, the Army version of the ACOL model predicts an impact on force retention up to twice that shown in Tables 9 through 12. Both are appropriate models based on reasonable but different assumptions. Given the magnitude of difference in the projections, the effect of the options on force structure as displayed using the 5th QRMC model may be optimistic; i.e., the degradation of the force and combat readiness may be far greater than projected. On the other hand, if the 5th QRMC model were run using current retention rates, the effect on the force compared to today's force would be less than projected.

In summary, the increasing levels of accrual reduction would in turn progressively decrease the career content of the armed forces, combat readiness, and the ability of the Department of Defense to satisfy national security requirements. None of the levels are considered prudent nor acceptable; however, of the five, the $1.8B reduction in accrual funding is least damaging. Thus, if the Congress intends to reduce military retired pay for future entrants in spite of the Department of Defense's objections and the projected degradation to national security, the Department would strongly prefer the $1.8B level over the others specified in the Defense Authorization Act.

Table 7

Military Retired Pay As A Percentage of Final Basic Pay *

Years of Service At Retirement	Option						
	Current	Hi-Three	1.8%	2.9%	3.6%	4.0%	5.4%
20	50.0%	45.3%	40.5%	36.3%	33.8%	32.1%	27.0%
21	52.5	48.1	43.4	39.5	37.2	35.7	31.1
22	55.0	47.6	43.3	40.0	38.1	36.8	32.9
23	57.5	51.1	46.4	43.5	41.8	40.6	37.1
24	60.0	54.4	49.4	46.9	45.4	44.4	41.3
25	62.5	57.8	52.5	50.3	49.0	48.2	45.6
26	65.0	53.6	49.4	47.9	47.0	46.4	44.5
27	67.5	58.1	53.5	52.3	51.5	51.1	49.6
28	70.0	62.6	57.1	56.3	55.8	55.4	54.4
29	72.5	67.1	60.7	60.2	60.0	59.8	59.3
30	75.0	69.3	64.3	64.3	64.3	64.3	64.3

* The effect of averaging basic pay in computing initial retired pay varies by paygrade. Figures shown are for grade E-7.

The computation of percentages are based on the following: Cur-ent-based on final basic pay and applies to members who entered service prior to September 8, 1980; Hi-Three-based on average of high three basic pay and applies to members who entered service on or after September 8, 1980; Structure Only-based on average of high five basic pay; Combination-based on average of high three basic pay.

Computation of basic pay assumes 6.2% pay growth and accounts for longevity increases but not for promotions. Excluding promotions understates the effect of averaging basic pay to compute initial retired pay.

Table 8

Military Retired Pay As A Percentage of Final Total Pay *

Years of Service At Retirement	Option Current	Hi-Three	1.8%	2.9%	3.6%	4.0%	5.4%
20	34.3%	31.1%	27.0%	24.9%	23.2%	22.0%	18.5%
21	36.0	33.0	29.8	27.2	25.6	24.5	21.3
22	38.4	33.2	30.2	27.9	26.6	25.7	22.9
23	40.1	35.6	32.3	30.4	29.1	28.3	25.9
24	41.9	38.0	34.5	32.7	31.7	30.9	28.8
25	43.6	40.3	36.6	35.1	34.2	33.6	31.8
26	46.6	38.4	35.4	34.3	33.7	33.2	31.9
27	48.4	41.7	38.3	37.5	36.9	36.6	35.6
28	50.2	44.9	40.9	40.3	40.0	39.7	39.0
29	52.0	48.0	43.5	43.2	43.0	42.9	42.5
30	53.8	49.7	46.1	46.1	46.1	46.1	46.1

* The effect of averaging basic pay in computing initial retired pay varies by paygrade. Figures shown are for grade E-7.

The computation of percentages are based on the following: Current-based on final basic pay and applies to members who entered service prior to September 8, 1980; Hi-Three-based on average of high three basic pay and applies to members who entered service on or after September 8, 1980; Structure Only-based on average of high five basic pay; Combination-based on average of high three basic pay.

Computation of basic pay assumes 6.2% pay growth and accounts for longevity increases but not for promotions. Excluding promotions understates the effect of averaging basic pay to compute initial retired pay.

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FIGURE 3

MONTHLY RETIRED PAY - 1985 DOLLARS

STRUCTURAL CHANGE ALTS E-7 w/22 YOS

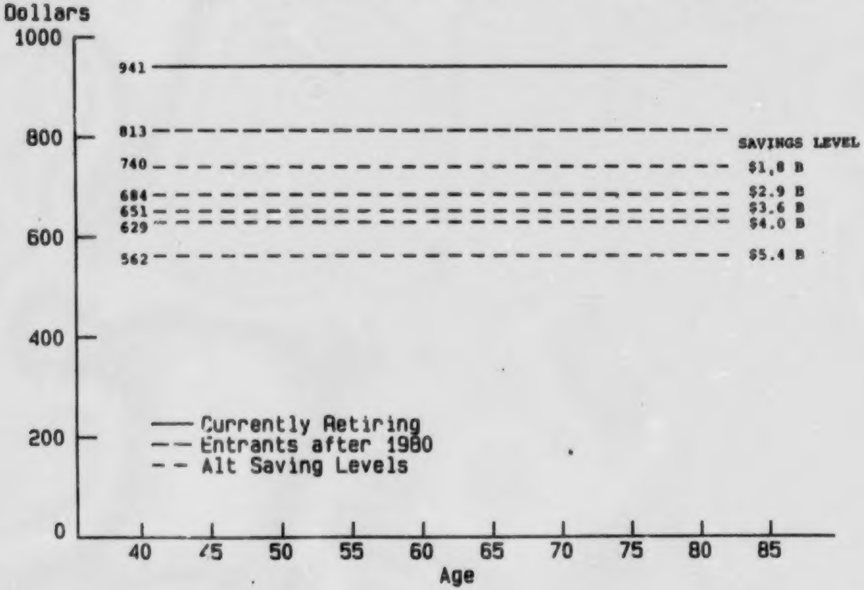

FIGURE 4

MONTHLY RETIRED PAY - 1985 DOLLARS

STRUCTURAL CHANGE ALTS 0-5 w/23 YOS

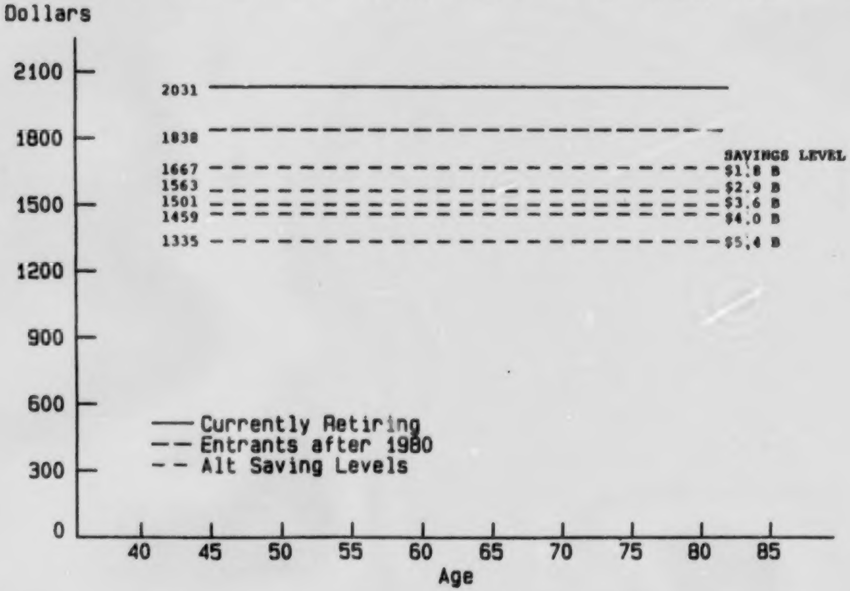

TABLE 9

IMPACT RELATIVE TO TODAY'S FORCE

ENLISTED

	TODAY'S 7-YR AVG	OPTIONS FOR 1.80 DEDUCTION	OPTIONS FOR 2.90 DEDUCTION	OPTIONS FOR 3.60 DEDUCTION	OPTIONS FOR 4.00 DEDUCTION	OPTIONS FOR 5.40 DEDUCTION
ACCESSIONS	332,548	348,960	352,895	354,172	354,627	354,901
DIFF		16412	20347	21624	22079	22353
%CHANGE		4.9	6.1	6.5	6.6	6.7
(YOS) 1-4	1,030,730	1,080,060	1,091,797	1,095,691	1,097,073	1,097,840
DIFF		49330	61067	64961	66343	67110
%CHANGE		4.8	5.9	6.3	6.4	6.5
(YOS) 5-10	389,129	388,142	386,499	386,445	386,626	386,618
DIFF		-987	-2630	-2684	-2503	-2511
%CHANGE		-0.3	-0.7	-0.7	-0.6	-0.6
(YOS) 11-20	329,617	304,700	291,468	285,474	282,339	276,237
DIFF		-24917	-38149	-44143	-47278	-53380
%CHANGE		-7.6	-11.6	-13.4	-14.3	-16.2
(YOS) 21-30+	55,262	31,831	34,977	37,130	38,699	44,046
DIFF		-23431	-20285	-18132	-16563	-11216
%CHANGE		-42.4	-36.7	-32.8	-30.0	-20.3
(YOS) 5-20	718,746	692,842	677,967	671,919	668,965	662,855
DIFF		-25904	-40779	-46827	-49781	-55891
%CHANGE		-3.6	-5.7	-6.5	-6.9	-7.8
(YOS) 5-30+	774,008	724,673	712,944	709,049	707,664	706,901
DIFF		-49335	-61064	-64959	-66344	-67107
%CHANGE		-6.4	-7.9	-8.4	-8.6	-8.7

TABLE 10

IMPACT RELATIVE TO FORCE
WITH HIGH-3 AVERAGING

ENLISTED

	TODAY'S 7-YR AVG	FUTURE HI-3	OPTIONS FOR 1.80 SAVINGS	OPTIONS FOR 2.90 SAVINGS	OPTIONS FOR 3.60 SAVINGS	OPTIONS FOR 4.00 SAVINGS	OPTIONS FOR 5.40 SAVINGS
ACCESSIONS	332,548	340,315	348,960	352,895	354,172	354,627	354,901
DIFF			8645	12580	13857	14312	14586
%CHANGE			2.5	3.7	4.1	4.2	4.3
(YOS) 1-4	1,030,730	1,054,389	1,080,060	1,091,797	1,095,691	1,097,073	1,097,840
DIFF			25671	37408	41302	42684	43451
%CHANGE			2.4	3.5	3.9	4.0	4.1
(YOS) 5-10	389,129	390,308	388,142	386,499	386,445	386,626	386,618
DIFF			-2166	-3809	-3863	-3682	-3690
%CHANGE			-0.6	-1.0	-1.0	-0.9	-0.9
(YOS) 11-20	329,617	320,978	304,700	291,468	285,474	282,339	276,237
DIFF			-16278	-29510	-35504	-38639	-44741
%CHANGE			-5.1	-9.2	-11.1	-12.0	-13.9
(YOS) 21-30+	63,262	39,061	31,831	34,977	37,130	38,699	44,046
DIFF			-7230	-4084	-1931	-362	4985
%CHANGE			-18.5	-10.5	-4.9	-0.9	12.8
(YOS) 5-20	710,746	711,286	692,842	677,967	671,919	668,965	662,855
DIFF			-18444	-33319	-39367	-42321	-48431
%CHANGE			-2.6	-4.7	-5.5	-5.9	-6.8
(YOS) 5-30+	774,008	750,347	724,673	712,944	709,049	707,664	706,901
DIFF			-25674	-37403	-41298	-42683	-43446
%CHANGE			-3.4	-5.0	-5.5	-5.7	-5.8

TABLE 11

IMPACT RELATIVE TO TODAY'S FORCE

OFFICERS

	TODAY'S 7-YR AVG	OPTIONS FOR 1.00 DEDUCTION	OPTIONS FOR 2.90 DEDUCTION	OPTIONS FOR 3.60 DEDUCTION	OPTIONS FOR 4.00 DEDUCTION	OPTIONS FOR 5.40 DEDUCTION
ACCESSIONS	25,775	27,510	27,788	27,900	27,955	28,096
DIFF		1735	2013	2125	2180	2321
%CHANGE		6.7	7.8	8.2	8.5	9.0
(YOS) 1-4	93,764	99,635	100,632	101,035	101,235	101,731
DIFF		5871	6868	7271	7471	7967
%CHANGE		6.3	7.3	7.8	8.0	8.5
(YOS) 5-10	81,398	83,057	83,416	83,670	83,816	84,206
DIFF		1659	2018	2272	2418	2808
%CHANGE		2.0	2.5	2.8	3.0	3.4
(YOS) 11-20	73,772	70,024	67,977	66,949	66,365	64,934
DIFF		-3748	-5795	-6823	-7407	-8838
%CHANGE		-5.1	-7.9	-9.2	-10.0	-12.0
(YOS) 21-30+	20,967	17,180	17,878	18,249	18,487	19,029
DIFF		-3787	-3089	-2718	-2480	-1938
%CHANGE		-18.1	-14.7	-13.0	-11.8	-9.2
(YOS) 5-20	155,170	153,081	151,393	150,619	150,181	149,140
DIFF		-2089	-3777	-4551	-4989	-6030
%CHANGE		-1.3	-2.4	-2.9	-3.2	-3.9
(YOS) 5-30+	176,137	170,261	169,271	168,868	168,668	168,169
DIFF		-5876	-6866	-7269	-7469	-7968
%CHANGE		-3.3	-3.9	-4.1	-4.2	-4.5

TABLE 12

IMPACT RELATIVE TO FORCE WITH HIGH-3 AVERAGING

OFFICERS

	TODAY'S 7-YR AVG	FUTURE HI-3	OPTIONS FOR 1.80 SAVINGS	OPTIONS FOR 2.90 SAVINGS	OPTIONS FOR 3.60 SAVINGS	OPTIONS FOR 4.00 SAVINGS	OPTIONS FOR 5.40 SAVINGS
ACCESSIONS	25,775	26,572	27,510	27,789	27,900	27,955	28,096
DIFF			938	1217	1328	1383	1524
%CHANGE			3.5	4.6	5.0	5.2	5.7
(YOS) 1-4	93,764	96,437	99,635	100,532	101,035	101,235	101,731
DIFF			3198	4095	4598	4798	5294
%CHANGE			3.3	4.2	4.8	5.0	5.5
(YOS) 5-10	81,398	82,114	83,057	83,416	83,670	83,816	84,206
DIFF			943	1302	1556	1702	2092
%CHANGE			1.1	1.6	1.9	2.1	2.5
(YOS) 11-20	73,772	72,447	70,024	67,977	66,949	66,365	64,934
DIFF			-2423	-4470	-5498	-6082	-7513
%CHANGE			-3.3	-6.2	-7.6	-8.4	-10.4
(YOS) 21-30+	20,967	18,912	17,180	17,878	18,249	18,487	19,029
DIFF			-1732	-1034	-663	-425	117
%CHANGE			-9.2	-5.5	-3.5	-2.2	0.6
(YOS) 5-20	155,170	154,561	153,081	151,393	150,619	150,181	149,140
DIFF			-1480	-3168	-3942	-4380	-5421
%CHANGE			-1.0	-2.0	-2.6	-2.8	-3.5
(YOS) 5-30+	176,137	173,473	170,261	169,271	168,868	168,668	168,169
DIFF			-3212	-4202	-4605	-4805	-5304
%CHANGE			-1.9	-2.4	-2.7	-2.8	-3.1

SECTION-BY-SECTION ANALYSIS

Title I contains provisions that would effect structural changes in the military retirement system.

Section 101 would add a new section 1409 to chapter 71 of title 10, United States Code, relating to computation of retired pay. The new section 1409 would prescribe retired pay multipliers for the active service, nondisability retirement system. The general rule would be current law—2.5 percent for each year of creditable service. The multipliers for future entrants of the military, however, would be reduced by one percentage point per year for the time by which their creditable service falls short of 30 years. Thus, members retiring with 20 years of creditable service would use 40 percent as their multiplier.

Section 102(a) would transfer the current section 1406 of title 10 (relating to retired pay for non-regular service) to chapter 67 (relating to retired pay for non-regular service), where it would appear as a new section 1338.

Section 102(b) would create a new section 1406 of title 10 to prescribe the use of final basic pay for calculating the retired pay bases of those who entered uniformed service before September 8, 1980, and amend section 1407 of title 10 to prescribe a graduated system of high-period averaging for calculating the retired pay bases of new entrants of the uniformed services. New entrants attaining 30 years of creditable service would use the current retired pay base formula—"high three" averaging. New entrants who attain less than 30 years of creditable service would use an averaging period longer than 36 months—up to 60 months, depending on the time by which their creditable service falls short of 30 years. Thus, members retiring with 20 years of creditable service would use "high five" averaging.

Section 103 would add new sections 1410 and 1411 to title 10 to prescribe rules of construction for computation of retired pay, especially with respect to the grandfathering phrase "first became a member."

Section 104 would make consolidating and conforming changes to section 1405 of title 10, relating to determination of years of service for computation of retired pay.

Title II contains provisions that would revise and conform existing statutory formulas and tables for computation of retired pay.

Section 201 would address the military service-wide provisions in subtitle A of title 10, United States Code. Sections 202 through 204 would address the military service-specific provisions in subtitles B through D of title 10.

Section 205 would revise and conform existing statutes in title 14, United States Code, governing computation of retired pay for members of the Coast Guard.

Section 206 would revise and conform existing statutes in the Coast and Geodetic Survey Commissioned Officers Act of 1948 governing computation of retired pay for members of the commissioned corps of the National Oceanic and Atmospheric Administration.

Section 207 would revise and conform existing statutes in the Public Health Service Act governing computation of retired pay for members of the commissioned corps of the Public Health Service.

Title III contains miscellaneous provisions.

Section 301 would revise and conform the Survivor Benefit Plan in Chapter 73 of title 10, United States Code, to provide that base amounts for survivor annuities in respect of new entrants of the military be computed without regard to any multiplier reduction under the new section 1409(b)(2) proposed to be added to title 10 by section 101 of the bill.

Section 302 would require that members of the reserve components who complete their qualifying years of service for retired pay under chapter 67 of title 10, United States Code, in the future remain members of their reserve components in order to receive retired pay at age 60.

Section 303 would give "uniformed services" the same meaning for purposes of title 10 that it has for purposes of title 37, United States Code, governing pay and allowances of members of the armed forces (Army, Navy, Marine Corps, Air Force, and Coast Guard), the commissioned corps of the National Oceanic and Atmospheric Administration, and the commissioned corps of the Public Health Service.

Section 304 would effect technical and clerical changes in title 10, United States Code.

Section 305 would codify certain permanent limitations on retired and retainer pay enacted in sections 8039 and 8054 of the Department of Defense Appropriations Act, 1985 (as contained in section 101(h) of Public Law 98-473). No substantive change is intended by the proposed codification.

Section 306 would repeal the military retirement accrual funding limitation established in section 666 of the Department of Defense Authorization Act, 1986 (Public Law 99-145).

Title IV contains provisions concerning unauthorized appropriations.

Section 401 would prohibit obligation and expenditure of certain defense appropriations except as authorized in section 402 or in subsequent authorizing legislation. The prohibition would apply to amounts provided for programs, projects, and activities of the Department of Defense in fiscal year 1986 appropriations in excess of the amounts provided for those programs, projects, and activities in fiscal year 1986 authorizations. The pertinent appropriations would be the amounts made available in the Department of Defense Appropriations Act, 1986 (section 101(b), Public Law 99-190). The pertinent authorizations would be the amounts authorized in the Department of Defense Authorization Act, 1986 (Public Law 99-145), as set forth in that Act and in the joint statement of the committee of conference on that Act (House Report 99-235).

Section 402 would approve obligation and expenditure of some amounts appropriated in excess of previously authorized levels for specified programs, projects, and activities of the Department of Defense in fiscal year 1986. Certain of the specified approvals would be conditioned on prior submission of a report to the appropriate committees of Congress concerning how funds are proposed to be spent on the project in question. Section 402 would also revise authorization levels for certain shipbuilding programs and other appropriation accounts. All program limitations and requirements contained in the Department of Defense Authorization Act, 1986 (and in the joint statement of the committee of conference on that Act), together with the transfer authority provided in section 1401 of the Act, would apply fully to the authorizations specified in section 402(b).

Section 403 would specify the programs, projects, and activities of the Department of Defense for which obligation and expenditure of amounts appropriated in excess of authorizations would remain prohibited.

Section 404 would provide authorization for a specified military construction project in support of strategic homeporting. Obligation and expenditure of funds appropriated for the project, however, would be subject to the provisions of section 205 of the Military Construction Authorization Act, 1986 (Public Law 99-167), as if they had been appropriated pursuant to an authorization for strategic homeporting in section 602 of that Act. Obligation and expenditure of funds appropriated for the project in excess of the authorization provided in section 404(a) or in subsequent authorizing legislation would be prohibited by section 404(c).

JURISDICTIONAL CIRCUMSTANCES

The following letter from Hon. John D. Dingell, chairman of the Committee on Energy and Commerce, to Hon. Les Aspin, chairman of the Committee on Armed Services, discusses the jurisdictional circumstances of section 207 of the bill, which addresses retirement of commissioned officers of the Public Health Service.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
Washington, DC, March 24, 1986.

Hon. LES ASPIN,
Chairman, Committee on Armed Services,
Rayburn House Office Building, Washington, DC.

DEAR MR. CHAIRMAN: On March 20, 1986, the Committee on Armed Services ordered reported H.R. 4420, the "Military Retirement Reform Act of 1986". It is my understanding that the bill amends the retirement programs for the military and for the members of several other governmental organizations, including the Commissioned Officers of the Public Health Service.

As you know, the Committee on Energy and Commerce has jurisdiction over all legislation affecting the Public Health Service and its Commissioned Officers. At your request I have reviewed the bill and take note that the retirement program changes apply equally to all members of the uniformed services.

I have been informed that the portion of the bill dealing with the military needs to be enacted by May 1, 1986. Under these unusual circumstances, and with the understanding that the retirement program changes will be made equally for all members of the uniformed services, the Committee on Energy and Commerce will not request sequential referral of the bill. I do request, however, that you keep me informed with the progress of the bill and with any changes to the bill that affect the Public Health Service.

Sincerely,

JOHN D. DINGELL, *Chairman.*

The following letters from Hon. Walter B. Jones, chairman of the Committee on Merchant Marine and Fisheries, to Hon. Les Aspin, chairman of the Committee on Armed Services, and the response, discuss the jurisdictional circumstances of sections 205 and 206 of the bill, which address retirement of members of the United States Coast Guard and of commissioned officers of the National Oceanic and Atmospheric Administration, respectively.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON MERCHANT MARINE AND FISHERIES,
Washington, DC, March 31, 1986.

Hon. LES ASPIN,
Chairman, Committee on Armed Services,
Rayburn House Office Building, Washington, DC.

DEAR MR. CHAIRMAN: I write to you today in reference to H.R. 4420, a bill to amend title 10, United States Code, to revise the retirement system for new members of the uniformed services, and for other purposes. I concur with your desire to clarify and amend the retirement system for new members of the uniformed services, and to that end pledge to you my support.

Jurisdiction over legislation affecting members of the Coast Guard (Sec. 205 of H.R. 4420) and Commissioned Officers of the National Oceanic and Atmospheric Administration (Sec. 206 of H.R. 4420) rests solely within the House Committee on Merchant Marine and Fisheries. I do not, however, intend to request sequential referral on this important legislation. I do this in order to assure the bill's timely consideration before the full House. I would be grateful for a letter from you to me acknowledging my Committee's jurisdiction over these matters and further request that our two letters appear in the report on this bill.

Once again, allow me to commend you for the initiative which you have taken on this matter.

With warm regards, I am

Sincerely,

WALTER B. JONES, *Chairman.*

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
Washington, DC, April 2, 1986.

Hon. WALTER B. JONES,
Chairman, Committee on Merchant Marine and Fisheries,
Washington, DC.

DEAR WALTER: This is in response to your letter of March 31, 1986, expressing support for our bill to reform the retirement system for new entrants of the uniformed services. As you know, the Armed Services Committee recently ordered a favorable report of H.R. 4420 to the House.

I agree with your observation that the bill should receive timely consideration by the full House and appreciate your decision to forego any request for sequential referral. I readily acknowledge the jurisdication of the Committee on Merchant Marine and Fisheries over legislation affecting members of the United States Coast Guard and commissioned officers of the National Oceanic and Atmospheric Administration.

I will be happy to include our correspondence on the jurisdictional circumstances of sections 205 and 206 in the Armed Services Committee's report of the bill to the House.

Sincerely,

Les Aspin, *Chairman*.

COMMITTEE POSITION

The committee on March 20, 1986, a quorum being present, agreed to report favorably H.R. 4420, as amended, by a voice vote.

FISCAL DATA

Pursuant to clause 7 of Rule XIII of the Rules of the House of Representatives, the committee attempted to ascertain annual outlays resulting from the bill during fiscal year 1986 and the four following fiscal years.

Department of Defense Estimate

The Department of Defense estimates that the change to the military retirement system would eventually reduce the amount of the annual contribution to the Military Retirement Fund by $3.25 billion. The annual reduction during the next five years would be less because the change would not be effective until late in fiscal year 1986 and because the method and assumptions used to calculate the amount of the annual contribution will change beginning in fiscal year 1987 (resulting in smaller savings for several years). Reductions in defense outlays are approximately equal to the reductions in the annual contribution to the Fund.

No data were provided regarding the outlay effect of title IV of the legislation.

Congressional Budget Office

In compliance with clause 2(l)(3)(C) of Rule XI of the Rules of the House of Representatives, the estimate prepared by the Congressional Budget Office and submitted pursuant to section 403 of the Congressional Budget Act of 1974 is included hereafter:

U.S. Congress,
Congressional Budget Office,
Washington, DC, April 8, 1986.

Hon. Les Aspin,
Chairman, Committee on Armed Services,
House of Representatives, Washington, DC.

Dear Mr. Chairman: This letter contains cost estimates for H.R. 4420, a bill revising the military retirement program and providing authorizations for certain appropriations, as ordered reported by the House Armed Services Committee on March 20, 1986.

CHANGES IN MILITARY RETIREMENT

The provisions affecting military retirement, the Military Retirement Reform Act of 1986, would apply to people entering the armed forces after enactment of the bill which we assume to be May 1, 1986. Primarily, the bill changes current law by reducing the rate at which benefits are earned and by reducing the base to which the rates would apply. For example, under current law a person retiring twenty years from now would receive an annuity equal to 50 percent of his high three years of basic pay; under this bill the annuity would be 40 percent of the high five years of basic pay.

These changes would have no affect on outlays through 1991 yet would save about $5.6 billion in authorizations for appropriations because of accrual accounting. Table 1 shows that outlay savings in national defense (function 050) are offset by lower receipts in the military retirement trust fund which are recorded in the function for undistributed offsetting receipts (function 950). Outlay savings in the form of lower benefit payments would occur when the affected population retires. Overall, the authorization is lower because the assets of the trust fund are lower; these are recorded in function 600—income security.

In time, these savings grow as more people are covered by the new retirement program, but savings fall between 1986 and 1987 because of how the budget would reflect the changes. Sections 667(b) and 667(c) of the Department of Defense Authorization Act, 1986 (Public Law 99-145) anticipated this legislation and specified that the savings for 1986 be computed based on certain assumptions contained in the Administration budget request. The request for 1986 assumed benefits would be accrued for the whole force at the same rate as for new entrants. In 1987, accrual rates are tailored more to relevant cohorts. Consequently, accrual payments in 1986 will be reduced by more than the actual change (less than $100 million), but payments in 1987 and after will reflect the actual changes better.

OTHER AUTHORIZATIONS

Public Law 99-190, Further Continuing Appropriations for Fiscal Year 1986, made appropriations in excess of authorizations but prohibited most of the excess from being obligated or expended. This bill would remove that prohibition, (contained in section 8109 of

P.L. 99-190) to some extent and the budget effects depend on how one interprets section 8109.

One interpretation sees section 8109 as binding at the account level only—essentially the level provided in actual bill language. Under this interpretation, the continuing resolution as reduced by the 1986 sequester contains about $1,779 million of appropriations in excess of authorization. This bill would reduce the excess to $921 million by raising the account level authorizations by $858 million. These amounts and the associated outlays are shown in the top panel of Table 2.

A second interpretation sees section 8109 as binding at the program, project, or activity level of detail as specified in committee reports. With this interpretation the excess is much greater—about $5,114 million. The excess would be reduced to about $2,784 million because H.R. 4420 would raise authorizations for individual programs, projects, and activities by a total of about $2,329 million. (See the botton panel of Table 2).

We cannot judge which interpretation is correct, but would make the following observations. First, scorekeeping for 1986 currently assumes that section 8109 is not binding at either level of detail because under current scorekeeping conventions outlay estimates were not reduced to account for appropriations in excess of authorizations. Second, the 1986 sequester was computed based on the first interpretation, in other words, only the excess at the account level was deemed to be exempt from the sequester. Third, the Defense Department has said it is withholding funds from obligation and expenditure based on the second interpretation.

We would be pleased to provide any additional information you may want on these estimates.

With best wishes,

Sincerely,

RUDOLPH G. PENNER.

TABLE 1.—BUDGET IMPACT OF THE MILITARY RETIREMENT REFORM ACT OF 1986

[By fiscal year, in millions of dollars]

Function	1986	1987	1988	1989	1990	1991
National Defense (050):						
Estimated authorization	−1,317	−183	−505	−863	−1,219	−1,524
Estimated outlay	−1,315	−186	−504	−863	−1,218	−1,524
Income Security (600):						
Estimated authorization	−1,375	−316	−667	−1,078	−1,503	−1,889
Estimated outlay						
Offsetting Receipts (950):						
Estimated authorization	1,315	186	504	863	1,2118	1,524
Estimated outlay	1,315	186	504	863	1,218	1,524
Total budget:						
Estimated authorization	−1,378	−314	−668	−1,079	−1,503	−1,889
Estimated outlay						

TABLE 2.—COMPARATIVE ESTIMATES FOR TITLE IV OF H.R. 4420

[By fiscal year, in millions of dollars]

	1986	1987	1988	1989	1990
Account level:					
Current excess appropriation	1,779				
Outlays	135	500	421	262	195
Excess appropriation under H.R. 4420	921				
Outlays	69	367	264	116	54
Change in authorization	858				
Outlays	66	132	157	146	141
Project level:					
Current excess appropriation	5,114				
Outlays	1,305	1,527	1,058	506	281
Excess appropriation under H.R. 4420	2,784				
Outlays	624	854	606	291	161
Change in authorization	2,329				
Outlays	681	674	452	215	119

COMMITTEE COST ESTIMATE

With regard to the issue of retirement reform, because the changes being proposed to the military retirement system would only be applicable to individuals who enter active duty for the first time after the date of enactment, no changes in outlays at the level of the Federal budget would be observed for many years in the future. However, the Defense budget would change in fiscal year 1986 and thereafter as the normal cost of the retirement system responds to the changes being recommended. The committee concurs with the estimate of the Congressional Budget Office.

With regard to the issue of unauthorized appropriations, the commnittee generally concurs with the estimate of the Congressional Budget Office. However, the committee's views differ with regard to a small number of individual programs and are specifically reflected in tables 1 through 6 of the report.

The committe also notes that the effect of its action is dependent on the status of unauthorized appropriations. If the $5.6 billion of unauthorized appropriations may not be obligated (a view consistent with the committee's position), the legislation would permit $2.2 billion of that amount to be obligated—although this amount would not add to the totals currently attributed to the national defense function. On the other hand, if the $5.6 billion of unauthorized appropriations—or at least that portion not subject to the restriction contained in section 8109 of the Defense Appropriations Act for fiscal year 1986—may be obligated (a view consistent with the department's position), the legislation would prohibit $2.8 billion of that amount from being obligated.

INFLATION—IMPACT STATEMENT

Pursuant to clause 2(l)(4) of Rule XI of the Rules of the House of Representatives, the committee attempted to determine the inflationary impact of the bill.

The committee believes the legislation will have no inflationary impact.

OVERSIGHT FINDINGS

With reference to clause 2(l)(3)(D) of Rule XI of the Rules of the House of Representatives, the committee has not received a report from the Committee on Government Operations pertaining to the subject matter of the legislation.

With reference to clause 2(b)(1) of Rule X of the Rules of the House of Representatives, the committee recommends that the legislation be enacted pursuant to its oversight responsibilities.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

TITLE 10, UNITED STATES CODE

* * * * * * *

Subtitle A—General Military Law

* * * * * * *

PART I—ORGANIZATION AND GENERAL MILITARY POWERS

* * * * * * *

CHAPTER 1—DEFINITIONS

Sec.
101. Definitions.

§ 101. Definitions

In addition to the definitions in sections 1-5 of title 1, the following definitions apply in this title:

(1) * * *

* * * * * * *

(43) "Uniformed services" means—

(A) the armed forces;

(B) the commissioned corps of the National Oceanic and Atmospheric Administration; and

(C) the commissioned corps of the Public Health Service.

* * * * * * *

PART II—PERSONNEL

* * * * * * *

CHAPTER 41—SPECIAL APPOINTMENTS, ASSIGNMENTS, DETAILS, AND DUTIES

* * * * * * *

§ 716. Commissioned officers: transfers among the armed forces, the National Oceanic and Atmospheric Administration, and the Public Health Service

(a) Notwithstanding any other provision of law, the President, within authorized strengths and with the consent of the officer involved, may transfer any commissioned officer of a uniformed service from his uniformed service to, and appoint him in, another uniformed service. The Secretary of Defense, the Secretary of Transportation, the Secretary of Commerce, and the Secretary of Health and Human Services shall jointly establish, by regulations approved by the President, policies and procedures for such transfers and appointments.

(b) An officer transferred under this section may not be assigned precedence or relative rank higher than that which he held on the day before the transfer.

[(c) In this section, "uniformed service" means any of the armed forces, the Commissioned Corps of the National Oceanic and Atmospheric Administration, or the Commissioned Corps of the Public Health Service.]

* * * * * * *

CHAPTER 53—MISCELLANEOUS RIGHTS AND BENEFITS

* * * * * * *

§ 1040. Transportation of dependent patients

(a) Except as provided in subsection (b), if a dependent accompanying a member of the uniformed services who is stationed outside the United States or in Alaska or Hawaii and who is on active duty for a period of more than 30 days requires medical attention which is not available in the locality, transportation of the dependents at the expense of the United States is authorized to the nearest appropriate medical facility in which adequate medical care is available. On his recovery or when it is administratively determined that the patient should be removed from the medical facility involved, the dependent may be transported at the expense of the United States to the duty station of the member or to such other place determined to be appropriate under the circumstances. If a dependent is unable to travel unattended, round-trip transportation and travel expenses may be furnished necessary attendants, and such expenses may be paid in advance.

(b) This section does not authorize transportation and travel expenses for a dependent for elective surgery which is determined to be not medically indicated by a medical authority designated under joint regulations to be prescribed under this section.

(c) [“Dependent” and “uniformed services” in this section have the meanings of those terms as defined in] *In this section, “dependent” has the meaning given that term in* section 1072 of this title.

(d) Transportation and travel expenses authorized by this section shall be furnished in accordance with joint regulations to be prescribed by the Secretary of Transportation, the Secretary of Defense, the Secretary of Commerce, and the Secretary of Health and Human Services, which shall require the use of transportation facilities of the United States insofar as practicable.

* * * * * * *

CHAPTER 67—RETIRED PAY FOR NON-REGULAR SERVICE

Sec.

1331. Age and service requirements.
1332. Computation of years of service in determining entitlement to retired pay.
1333. Computation of years of service in computing retired pay.
1334. Time not creditable toward years of service.
1335. Inactive status list.
1336. Service credited for retired pay benefits not excluded for other benefits.
1337. Limitation on active duty.
1338. Limitations on revocation of retired pay.

§ 1331. Age and service requirements

(a) Except as provided in subsection (c), a person is entitled, upon application, to retired pay computed under section 1401 of this title, if—

(1) he is at least 60 years of age;

(2) he has performed at least 20 years of service computed under section 1332 of this title;

(3) he performed the last eight years of qualifying service while a member of any category named in section 1332(a)(1) of this title, but not while a member of a regular component, the Fleet Reserve, or the Fleet Marine Corps Reserve; [and]

(4) he is not entitled, under any other provision of law, to retired pay from an armed force or retainer pay as a member of the Fleet Reserve or the Fleet Marine Corps Reserve[.]*; and*

(5) in the case of a person who completed the years of service required for eligibility for such retired pay on or after the date of the enactment of the Military Retirement Reform Act of 1986, he is a member of a reserve component.

* * * * * * *

[§ 1406.] *§ 1338* Limitations on revocation of retired pay

(a) After a person has been granted retired pay under [chapter 67 of this title,] *this chapter,* or has been notified in accordance with section 1331(d) of this title that he has completed the years of service required for eligibility for retired pay under [chapter 67 of this title,] *this chapter,* the person's eligibility for retired pay may not be denied or revoked on the basis of any error, miscalculation, misinformation, or administrative determination of years of service performed as required by section 1331(a)(2) of this title, unless it resulted directly from the fraud or misrepresentation of the person.

(b) The number of years of creditable service upon which retired pay is computed may be adjusted to correct any error, miscalculation, misinformation, or administrative determination and when such a correction is made the person is entitled to retired pay in accordance with the number of years of creditable service, as corrected, from the date he is granted retired pay.

CHAPTER 71—COMPUTATION OF RETIRED PAY

Sec.
1401. Computation of retired pay.
1401a. Adjustment of retired pay and retainer pay to reflect changes in Consumer Price Index.
[1402. Recomputation of retired pay or retainer pay to reflect later active duty.]
1402. Recomputation of retired pay or retainer pay to reflect later active duty of members who first became members before September 8, 1980.
1402a. Recomputation of retired pay or retainer pay to reflect later active duty of members who first became members after September 7, 1980.
1403. Disability retired pay; treatment under Internal Revenue Code of 1954.
1404. Applicability of section 8301 of title 5.
1405. Years of service.
[1406. Limitations on revocation of retired pay.
[1407. Retired pay base.]
1406. Retired pay base for members who first became members before September 8, 1980.
1407. Retired pay base for members who first became members after September 7, 1980.
1408. Payment of retired or retainer pay in compliance with court orders.
1409. Retired pay multiplier.
1410. Rules of construction.
1411. Rounding to next lower dollar.

§ 1401. Computation of retired pay

(a) DISABILITY, NON-REGULAR SERVICE, WARRANT OFFICER, AND DOPMA RETIREMENT.—The monthly retired pay of a person entitled thereto under this subtitle is computed according to the following table. For each case covered by a section of this title named in the column headed "For sections", retired pay is computed by taking, in order, the steps prescribed opposite it in columns 1, 2, 3, and 4, as modified by the applicable footnotes. [The amount computed, if not a multiple of $1, shall be rounded to the next lower multiple of $1. However, if a person would otherwise be entitled to retired pay computed under more than one pay formula of this table or of any other provision of law, he is entitled to be paid under the applicable formula that is most favorable to him. Section references below are to sections of this title.]

Formula No.	For sections	[Column 1] [For a person who first became a member of a uniformed service (as defined in section 1407(a)(2) after September 7, 1980, take the monthly retired pay base as computed under section 1407(b). For all others, take]	*Column 1* *Take*	Column 2 Multiply by	Column 3 Add	Column 4 Subtract
1	1201 1204	[Monthly basic pay [1] of grade to which member is entitled under section 1372 or to which he was entitled on day before retirement or placement on temporary disability retired list, whichever is higher.[4]]	*Retired pay base as computed under section 1406(b)(1) or 1407.*	As member elects— (1) 2½% of years of service credited to him under section 1208; [[3]] [7] or (2) the percentage of disability on date when retired.		Excess over 75% of [pay] *retired pay base* upon which computation is based.
2	1202 1205	[Monthly basic pay [1] of the grade to which member is entitled under section 1372 or to which he was entitled on day before retirement or placement on temporary disability retired list, whichever is higher.[4]]	*Retired pay base as computed under section 1406(b)(1) or 1407.*	As member elects— (1) 2½% of years of service credited to him under section 1208; [[3]] [7] or (2) the percentage of disability on date when his name was placed on temporary disability retired list.	Amount necessary to increase product of columns 1 and 2 to 50% of [pay] *retired pay base* upon which computation is based.	Excess over 75% of [pay] *retired pay base* upon which computation is based.
3	1331	[Monthly basic pay [2] of highest grade held satisfactory by person at any time in the armed forces.]	*Retired pay base as computed under section 1406(b)(2) or 1407.*	2½% of years of service credited to him under section 1333.		Excess over 75% of [pay] *retired pay base* upon which computation is based.
4	564 1263 1293 1305	[Monthly basic pay to which member would have been entitled if he had served on active duty in his retired grade on day before retirement, or if the pay of that grade is less than the pay of any warrant grade satisfactorily held by him on active duty, the monthly basic pay of that warrant officer grade.]	*Retired pay base as computed under section 1406(b)(3) or 1407.*	[2½% of years of service that may be credited to him under section 1405 of this title.[3]] *The retired pay multiplier prescribed in section 1490(a) for the years of service credited to him under section 1405.*		[Excess over 75% of pay upon which computation is based.]

Formula No.	For sections	[Column 1] [For a person who first became a member of a uniformed service (as defined in section 1407(a)(2) after September 7, 1980, take the monthly retired pay base as computed under section 1407(b). For all others, take]	*Column 1* *Take*	Column 2 Multiply by	Column 3 Add	Column 4 Subtract
5	633 634 635 636 1251	[Monthly basic pay [1] of member's retired grade.[5]]	*Retired pay base as computed under section 1406(b)(4) or 1407.*	[2½% of years of service credited under section 1405.[3]] *The retired pay multiplier prescribed in section 1490(a) for the years of service credited to him under section 1405.*		[Excess over 75% of pay upon which computation is based.]

[[1] Compute at rates applicable on date of retirement or date when member's name was placed on temporary disability retired list, as the case may be.

[2] Compute at rates applicable on date when retired pay is granted.]

[[3]] *[3]* Before applying percentage factor, credit each full month of service that is in addition to the number of full years of service creditable to the member as one-twelfth of a year and disregard any remaining fractional part of a month.

[[4] For an officer who served as Chairman of the Joint Chiefs of Staff, Chief of Staff of the Army, Chief of Naval Operations, Chief of Staff of the Air Force, Commandant of the Marine Corps, or Commandant of the Coast Guard, compute at the highest rates of basic pay applicable to him while he served in that office. For an enlisted person who has served as sergeant major of the Army, master chief petty officer of the Navy, chief master sergeant of the Air Force, sergeant major of the Marine Corps, or master chief petty officer of the Coast Guard, compute at the highest rate of basic pay applicable to him while he so served, if that rate is higher than the rate authorized by the table.

[[5] For the purposes of this section, determine an officer's retired grade as if sections 3962(b) and 8962(b) did not apply.]

(b) USE OF MOST FAVORABLE FORMULA.—If a person would otherwise be entitled to retired pay computed under more than one formula of the table in subsection (a) or of any other provision of law, the person is entitled to be paid under the applicable formula that is most favorable to him.

* * * * * * *

§ 1402. Recomputation of retired or retainer pay to reflect later active duty *of members who first became members before September 8, 1980*

(a) A member of an armed force who first became a member of a uniformed service [(as defined in section 1407(a)(2) of this title)] before September 8, 1980, and who has become entitled to retired pay or retainer pay, and who thereafter serves on active duty (other than for training), is entitled to recompute his retired pay or retainer pay upon his release from that duty according to the following table. [The amount recomputed, if not a multiple of $1, shall be rounded to the next lower multiple of $1.]

Column 1 Take	Column 2 Multiply by	Column 3 Subtract
Monthly basic pay [1] of the grade in which he would be eligible— (1) to retire if he were retiring upon that release from active duty; or (2) to transfer to the Fleet Reserve or Fleet Marine Corps Reserve if he were transferring to either upon that release from active duty.	2½ percent of the sum of— (1) the years of service that may be credited to him in computing retired pay or retainer pay; and (2) his years of active service after becoming entitled to retired pay or retainer pay. [2]	Excess over 75 percent of pay upon which computation is based.

[1] For a member who has been entitled for continuous period of at least two years to basic pay under the rates of basic pay in effect upon that release from active duty compute under these rates. For a member who has been entitled to basic pay for a continuous period of at least two years upon that release from active duty, but who is not covered by the preceding sentence, compute under the rates of basic pay replaced by those in effect upon that release from active duty. For any other member, compute under the rates of basic pay under which the member's retired pay or retainer pay was computed when he entered on that active duty.

[2] Before applying the percentage factor, credit each full month of service that is in addition to the number of full years of service creditable to the member as one-twelfth of a year and disregard any fractional part of a month.

However, an officer who was ordered to active duty (other than for training) in the grade that he holds on the retired list under former section 6150 of this title, or under any other law that authorized advancement on the retired list based upon a special commendation for the performance of duty in actual combat, may have his retired pay recomputed under this subsection on the basis of the rate of basic pay applicable to that grade upon his release from that active duty only if he has been entitled, for a continuous period of at least three years, to basic pay at that rate. If, upon his release from that active duty, he has been entitled to the basic pay of that grade for a continuous period of at least three years, but he does not qualify under the preceding sentence, he may have his retired pay recomputed under this subsection on the basis of the rate of basic pay prescribed for that grade by the rates of basic pay replaced by those in effect upon his release from that duty.

(b) A member of an armed force who first became a member of a uniformed service [(as defined in section 1407(a)(2) of this title)] before September 8, 1980, and who has been retired other than for physical disability, and who while on active duty incurs a physical disability of at least 30 percent for which he would otherwise be eligible for retired pay under chapter 61 of this title, is entitled, upon his release from active duty, to retired pay under subsection (d).

(c) A member of an armed force who first became a member of a uniformed service [(as defined in section 1407(a)(2) of this title)] before September 8, 1980, and who—

(1) was retired for physical disability under section 1201 or 1204 of this title or any other law or whose name is on the temporary disability retired list;

(2) incurs, while on active duty after retirement or after his name was placed on that list, a physical disability that is in addition to or that aggravates the physical disability for which he was retired or for which his name was placed on the temporary disability retired list; and

(3) is qualified under section 1201, 1202, 1204, or 1205 of this title;

is entitled, upon his release from active duty, to retired pay under subsection (d).

(d) A member of an armed force covered by subsection (b) or (c) may elect to receive either (1) the retired pay to which he became entitled when he retired, increased by any applicable adjustments in that pay under section 1401a of this title after he initially became entitled to that pay, or (2) retired pay computed according to the following table. [The amount computed, if not a multiple of $1, shall be rounded to the next lower multiple of $1.]

Column 1 Take	Column 2 Multiply by	Column 3 Add	Column 4 Subtract
Highest monthly basic pay that member received while on active duty after retirement or after date when his name was placed on temporary disability retired list, as the case may be.	As member elects— (1) 2½% of years of service credited under section 1208 of this title; [1] or (2) the highest percentage of disability attained while on active duty after retirement or after the date when his name was placed on temporary disability retired list, as the case may be.[1]	Add amount necessary to increase product of columns 1 and 2 to 50% of pay upon which computation is based, if member is on temporary disability retired list.	Excess over 75% of pay upon which computation is based.

[1] Before applying the percentage factor, credit each full month of service that is in addition to the number of full years service creditable to the member as one-twelfth of a year and disregard any remaining fractional part of a month.

If, while on active duty after retirement or after his name was placed on the temporary disability retired list, a member covered by this subsection was promoted to a higher grade in which he served satisfactorily, as determined by the Secretary concerned, he is entitled to retired pay based on the monthly basic pay to which he would be entitled if he were on active duty in that higher grade.

(e) Notwithstanding subsection (a), a member covered by that subsection may elect, upon his release from active duty, to have his retired pay or retainer pay—

(1) computed according to the formula set forth in subsection (a) but using the rate of basic pay under which his retired pay or retainer pay computed when he entered on active duty; and

(2) increased by any applicable adjustments in that pay under section 1401a of this title after he initially became entitled to that pay.

§ 1402a. Recomputation of retired or retainer pay to reflect later active duty of members who first became members after September 7, 1980

[(a) A member of an armed force who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) after September 7, 1980, who has become entitled to retired pay or retainer pay, and who thereafter serves on active duty (other than for training), is entitled to recompute his retired pay or retainer pay upon his release from that duty according to the following table. The amount computed, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

Column 1 Take	Column 2 Multiply by	Column 3 Subtract
Monthly retired or retainer pay base under section 1407 of this title which he would be entitled to use if— (1) he were retiring upon release from that active duty; or (2) he were transferring to the Fleet Reserve or Fleet Marine Corps Reserve upon that release from active duty	2½ percent of the sum of— (1) the years of service that may be credited to him in computing retired pay or retainer pay; and (2) his years of active service after becoming entitled to retired pay or retainer pay.[1]	Excess over 75 percent of monthly retired or retainer pay base upon which computation is based.

[[1] Before applying percentage factor, credit each full month of service that is in addition to the number of full years of service creditable to the member as one-twelfth of a year and disregard any remaining fractional part of a month.]

(a) In General.—A member of an armed force—

(1) who first became a member of a uniformed service after September 7, 1980;

(2) who has become entitled to retired pay or retainer pay; and

(3) who thereafter serves on active duty (other than for training),

is entitled to recompute his retired pay or retainer pay upon his release from that duty according to the following table.

Column 1 *Take*	*Column 2* *Multiply by*
Retired pay base or retainer pay base under section 1407 which he would be entitled to use if— *(1) he were retiring upon release from that active duty; or*	*The retired pay multiplier or retainer pay multiplier prescribed in section 1409 for the sum of—* *(1) the years of service that may be credited to him in computing retired pay or retainer pay; and*

(2) he were transferring to the Fleet Reserve or Fleet Marine Corps Reserve upon that release from active duty.	*(2) his years of active service after becoming entitled to retired pay or retainer pay.*

(b) *New Disability Incurred During Later Active Duty.*—A member of an armed force who first became a member of a uniformed service after September 7, 1980, who has been retired other than for physical disability and who while on active duty incurs a physical disability of at least 30 percent for which he would otherwise be eligible for retired pay under chapter 61 of this title, is entitled, upon his release from active duty, to retired pay under subsection (d).

(c) *Additional or Aggravated Disability Incurred During Later Active Duty.*— A member of an armed force who first became a member of a uniformed service after September 7, 1980, and who—

(1) was retired for physical disability under section 1201 or 1204 of this title or any other law or whose name is on the temporary disability retired list;

(2) incurs, while on active duty after retirement or after his name was placed on the temporary disability retired list, a physical disability that is in addition to or that aggravates the physical disability for which he was retired or for which his name was placed on that list; and

(3) is qualified under section 1201, 1202, 1204, or 1205 of this title;

is entitled, upon his release from active duty, to retired pay under subsection (d).

(d) *Computation for Later Disability.*—A member of an armed force covered by subsection (b) or (c) may elect to receive either (1) the retired pay to which he became entitled when he retired, increased by any applicable adjustments in that pay under section 1401a of this title after he initially became entitled to that pay, or (2) retired pay computed according to the following table. [The amount computed, if not a multiple of $1, shall be rounded to the next lower multiple of $1.]

Column 1 Take	Column 2 Multiply by	Column 3 Add	Column 4 Subtract
The [monthly] retired pay base computed under section 1407(b) of this title	As member elects— (1) 2½ percent of years of service credited under section 1208 of this title; [1] or (2) the highest percentage of disability attained while on active duty after retirement or after the date when his name was placed on temporary disability retired list, as the case may be.	Amount necessary to increase product of columns 1 and 2 to 50 percent of pay upon which computation is based, if member is on temporary disability retired list.	Excess over 75 percent of [monthly] retired or retainer pay base upon which computation is based.

[1] Before applying the percentage factor, credit each full month of service that is in addition to the number of full years of service creditable to the member as one-twelfth of a year and disregard any remaining fractional part of a month.

(e) *Alternative Recomputation to Subsection (a)* Formula.— Notwithstanding subsection (a), a member covered by that subsection may elect, upon his release from that active duty, to have his retired pay and retainer pay—

(1) computed according to the formula set forth in subsection (a) but using the monthly retired pay base under which his retired pay and retainer pay was computed when he entered on that active duty; and

(2) increased by any applicable adjustments in that pay under section 1401a of this title after he initially became entitled to that pay.

* * * * * * *

§ 1405. Years of service

(a) In General.—For the purposes of **[**section 1401 (formulas 4 and 5), 3991 (formula A), 3992 (formula B), 6151(b), 6323(e), 6325 (a)(2) and (b)(2), 6383(c)(2), 8991 (formula A), or 8992 (formula B) of this title**]** *the computation of the years of service of a member of the armed forces under a provision of this title providing for such computation to be made under this section,* the years of service of a member of the armed forces are computed by adding—

(1) his years of active service;

(2) the years of service, not included in clause (1), with which he was entitled to be credited on May 31, 1958, in computing his basic pay; and

(3) the years of service, not included in clause (1) or (2), with which he would be entitled to be credited under section 1333 of this title if he were entitled to retired pay under section 1331 of this title.

(b) Fractional Years of Service.—In determining a member's years of service under subsection (a)—

(1) each full month of service that is in addition to the number of full years of service creditable to the member shall be credited as $1/12$ of a year; and

(2) any remaining fractional part of a month shall be disregarded.

§ 1406. Retired pay base for members who first became members before September 8, 1980

(a) Use of Retired Pay Base in Computing Retired Pay.—

(1) General rule.—The retired pay or retainer pay of any person entitled to that pay who first became a member of a uniformed service before September 8, 1980, is computed using the retired pay base or retainer pay base determined under this section.

(2) Exception for recomputation.—Recomputation of retired or retainer pay to reflect later active duty is provided for under section 1402 of this title without reference to a retired pay base or retainer pay base.

(b) Retirement Under Subtitle A.—

(1) Disability retirement.—

(A) In general.—In the case of a member of a uniformed service who is entitled to retired pay under chapter 61 of this title (relating to retirement or separation for physical

disability), the retired pay base is the monthly basic pay of the grade—

(i) to which the member is entitled under section 1372 of this title; or

(ii) to which the member was entitled on the day before the member's retirement or placement on the temporary disability retired list,

whichever is higher.

(B) RATE OF BASIC PAY TO BE USED.—The rate of basic pay to be used under subparagraph (A) is the rate applicable to the grade determined under that subparagraph on the date of the member's retirement or the date when the member's name was placed on the temporary disability retired list, as the case may be.

(2) RETIREMENT FOR NON-REGULAR SERVICE.—In the case of a person who is entitled to retired pay under section 1331 of this title (relating to retired pay for non-regular service), the retired pay base is the monthly basic pay (computed at the rates applicable on the date when retired pay is granted) of the highest grade held satisfactorily by the person at any time in the armed forces.

(3) WARRANT OFFICERS.—In the case of a member who is retired under section 564, 1263, 1293, or 1305 of this title, the retired pay base is—

(A) the monthly basic pay to which the member would have been entitled if he had served on active duty in his retired grade on the day before retirement; or

(B) if the pay of that grade is less than the pay of any warrant officer grade satisfactorily held by the member on active duty, the monthly basic pay of that warrant officer grade.

(4) INVOLUNTARY RETIREMENT OF OFFICERS FOR SERVICE OR AGE.—

(A) GENERAL RULE.—In the case of an officer who is retired under section 633, 634, 635, 636, or 1251 of this title, the retired pay base is the monthly basic pay (computed at the rates applicable on the date of retirement) of the officer's retired grade.

(B) SPECIAL RULE FOR CERTAIN PERMANENT PROFESSORS AT THE MILITARY AND AIR FORCE ACADEMIES.—The retired pay base of an officer whose retired grade is determined under section 3962(b) or 8962(b) of this title shall be determined as if that section did not apply.

(c) VOLUNTARY RETIREMENT FOR MEMBERS OF THE ARMY.—

(1) IN GENERAL.—In the case of a member whose retired pay is computed under section 3991 of this title or who is entitled to retired pay computed under section 3992 of this title, the retired pay base is determined in accordance with the following table.

For a member entitled to retired pay under section:	*The retired pay base is:*
3911	*Monthly basic pay of member's retired grade.*[1]
3918	
3920	

For a member entitled to retired pay under section:	The retired pay base is:
3924	
3914 3917	Monthly basic pay to which member was entitled on day before he retired.
3992	Monthly basic pay of grade to which member is advanced on retired list.

[1] For the purposes of this subsection, determine member's retired grade as if section 3962(b) did not apply.

(2) RATE OF BASIC PAY TO BE USED.—The rate of basic pay to be used under paragraph (1) is the rate applicable on the date of the member's retirement.

(d) RETIREMENT FOR MEMBERS OF THE NAVY AND MARINE CORPS.—In the case of a member whose retired pay is computed under section 6328 of this title, who is advanced on the retired list under section 6151 of this title, or who is entitled to retainer pay under section 6330 of this title, the retired pay base or retainer pay base is determined in accordance with the following table.

For a member entitled to retired or retainer pay under section:	The retired pay base or retainer pay base is:
6323 6325(a) 6383	Basic pay of the grade in which the member retired.[1]
6325(b)	Basic pay of the grade the officer would hold if he had not received an appointment described in section 6325(b).
6326	Basic pay of the grade in which the member was serving on the day before retirement.
6330	Basic pay that the member received at the time of transfer to the Fleet Reserve or Fleet Marine Corps Reserve.
6151	Basic pay of the grade to which the member is advanced under section 6151.

[1] If the rate specified is less than the pay of any warrant officer grade satisfactorily held by the member on active duty, use the monthly basic pay of that warrant officer grade.

(e) VOLUNTARY RETIREMENT FOR MEMBERS OF THE AIR FORCE.—

(1) IN GENERAL.—In the case of a member whose retired pay is computed under section 8991 of this title or who is entitled to retired pay computed under section 8992 of this title, the required pay base is determined in accordance with the following table.

For a member entitled to retired or retainer pay under section:	The retired pay base is:
8911 8918 8920 8924	Monthly basic pay of member's retired grade.[1]
8914 8917	Monthly basic pay to which member was entitled on day before he retired.
8992	Monthly basic pay of grade to which member is advanced on retired list.

[1] For the purposes of this subsection, determine member's retired grade as if section 8962(b) did not apply.

(2) Rate of basic pay to be used.—The rate of basic pay to be used under paragraph (1) is the rate applicable on the date of the member's retirement.

(f) Coast Guard.—In the case of a member who is retired under any section of title 14, the member's retired pay is computed under section 423(a) of title 14 in the manner provided in that section.

(g) Commissioned Corps of National Oceanic and Atmospheric Administration.—In the case of an officer whose retired pay is computed under section 16 of the Coast and Geodetic Survey Commissioned Officers' Act of 1948 (33 U.S.C. 853o), the retired pay base is the basic pay of the rank with which the officer retired.

(h) Commissioned Corps of Public Health Service.—In the case of an officer who is retired under section 210(g) or 211(a) of the Public Health Service Act (42 U.S.C. 211(g), 212(a)), the retired pay base is determined as follows:

(a) Mandatory retirement.—If the officer is retired under section 210(g) of such Act, the retired pay base is the basic pay of the permanent grade held by the officer at the time of retirement.

(2) Voluntary retirement.—If the officer is retired under section 211(a) of such Act, the retired pay base is the basic pay of the highest grade held by the officer and in which, in the case of a temporary promotion to such grade, the officer has performed active duty for not less than six months.

(i) Special Rule for Former Chiefs of Service and Senior Enlisted Members.—For the purposes of subsections (b) through (e):

(1) Former chiefs of service.—

(A) General rule.—In determining the rate of basic pay to apply in the determination of the retired pay base of an officer who served in a covered position, the highest rate of basic pay applicable to the officer while serving in that position shall be used, if that rate is higher than the rate otherwise authorized by this section.

(B) Covered position defined.—In this paragraph, "covered position" means any of the following:

(i) Chairman of the Joint Chief of Staff.
(ii) Chief of Staff of the Army.
(iii) Chief of Naval Operations.
(iv) Chief of Staff of the Air Force.
(v) Commandant of the Marine Corps.
(vi) Commandant of the Coast Guard.

(2) Senior enlisted members.—

(A) General rule.—In determining the rate of basic pay to apply in the determination of the retired pay base of an enlisted member who served in a covered position, the highest rate of basic pay applicable to the member while serving in that position shall be used, if that rate is higher than the rate otherwise authorized by this section.

(B) Covered position defined.—In this paragraph, "covered position" means any of the following:

(i) Sergeant Major of the Army.
(ii) Master Chief Petty Officer of the Navy.
(iii) Chief Master Sergeant of the Air Force.

(iv) Sergeant Major of the Marine Corps.
(v) Master Chief Petty Officer of the Coast Guard.

[§ 1407. Retired pay base

[(a)(1) The retired pay or retainer pay of any person who first became a member of a uniformed service after September 7, 1980, is determined using the monthly retired pay base or monthly retainer pay base computed under this section. In making any computation under this section, the rates of basic pay to be used are those most favorable to the member.

[(2) In this section, "uniformed service" means—

[(A) any of the armed forces;

[(B) the commissioned corps of the Public Health Service; or

[(C) the commissioned corps of the National Oceanic and Atmospheric Administration.

[(b)(1) In the case of a member who is retired under section 1201 or 1202 of this title, the monthly retired pay base is—

[(A) one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as a member of a uniformed service; or

[(B) in the case of a member who served on active duty for less than 36 months, the amount equal to the total amount of basic pay which the member received during the period he served on active duty as a member of a uniformed service divided by the number of months (including any fraction thereof) which he served on active duty.

[(2) In the case of a member who is retired under section 1204 or 1205 of this title, the monthly retired pay base is—

[(A) one thirty-sixth of the total amount of monthly basic pay which the member would have received if he had served on active duty as a member of a uniformed service during any 36 months (whether or not consecutive) during the period he was a member of a uniformed service preceding the date on which he became entitled to retired pay; or

[(B) in the case of a member who was a member for less than 36 months, the amount equal to the total amount of basic pay which he would have received if he had served on active duty during the period he was a member of a uniformed service divided by the number of months (including any fraction thereof) he was such a member.

[(3) In the case of a member who is retired under section 1331 of this title, the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay to which the member would have been entitled during any 36 months (whether or not consecutive) during the period he was a member of a uniformed service had he served on active duty during such months.

[(4) In the case of a member who is retired under section 564, 633, 634, 635, 636, 1251, 1263, 1293, or 1305 of this title, the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as a member of a uniformed service.

[(5) In the case of a member whose retired or retainer pay is recomputed under section 1402a(d) of this title, the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as a member of a uniformed service.

[(c)(1) In the case of a member whose retired pay is computed under section 3991 of this title (other than a member who is retired under section 3914 of this title) or who is entitled to retired pay under section 3992 of this title, the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as a member of a uniformed service.

[(2) In the case of a member who is retired under section 3914 of this title, the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as an enlisted member.

[(d)(1) In the case of a member whose retired pay is computed under section 6322, 6323, 6325, 6326, or 6383 of this title or who is advanced on the retired list under section 6151 of this title, the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as a member of a uniformed service.

[(2) In the case of a member transferred to the Fleet Reserve or Fleet Marine Corps Reserve under section 6330 of this title, the monthly retainer pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as an enlisted member.

[(e)(1) In the case of a member whose retired pay is computed under section 8991 of this title (other than a member who is retired under section 8914 of this title) or who is entitled to retired pay under section 8992 of this title, the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as a member of a uniformed service.

[(2) In the case of a member who is retired under section 8914 of this title, the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as an enlisted member.

[(f) In the case of a member who is retired under any section of title 14, the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as a member of a uniformed service.

[(g) In the case of a member whose retired pay is computed under section 16 of the Coast and Geodetic Survey Commissioned Officers' Act of 1948 (33 U.S.C. 853o), the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as a member of a uniformed service.

[(h) In the case of a member who is retired under section 210(g) or 211(a) of the Public Health Service Act (42 U.S.C. 211(g) and

212(a)), the monthly retired pay base is one thirty-sixth of the total amount of monthly basic pay which the member received for any 36 months (whether or not consecutive) of active duty as a member of a uniformed service.]

§ 1407. Retired pay base for members who first became members after September 7, 1980

(a) USE OF RETIRED PAY BASE IN COMPUTING RETIRED PAY.—The retired pay or retainer pay of any person entitled to that pay who first became a member of a uniformed service after September 7, 1980, is computed using the retired pay base or retainer pay base determined under this section.

(b) GRADUATED HIGH-PERIOD AVERAGE.—The retired pay base or retainer pay base of a member under this section is the member's high-period average determined under subsection (c).

(c) COMPUTATION OF HIGH-PERIOD AVERAGE.—

(1) FORMULA.—For the purposes of this section, a member's high-period average is the amount equal to—

(A) the total amount of monthly basic pay to which the member was entitled for the member's countable high-pay months, divided by

(B) the number of such countable high-pay months.

(2) NUMBER OF MONTHS TO BE USED IN COMPUTATION.—

(A) GENERAL RULE.—Subject to subparagraph (B) and to subsection (e), the number of countable high-pay months of a member is 36.

(B) INCREASE IN NUMBER OF COUNTABLE MONTHS FOR NEW-RETIREMENT MEMBERS WITH LESS THAN 30 YEARS OF SERVICE.—In the case of a new-retirement member who has less than 30 years of creditable service, the number of countable high-pay months shall be increased by one for each period of five months (including any portion thereof) that the member's years of creditable service are less than 30.

(3) COUNTABLE HIGH-PAY MONTHS DEFINED.—

(A) GENERAL RULE.—A member's countable high-pay months are those months (the number of which is determined under paragraph (2)) out of all the months of active duty served by the member as a member of a uniformed service for which the monthly basic pay to which the member was entitled was the highest.

(B) RULE FOR NON-REGULAR SERVICE RETIREES.—In the case of a member who is entitled to retired pay under section 1204 or 1205 of this title or under chapter 67 of this title, a member's countable high-pay months are those months (the number of which is determined under paragraph (2) or subsection (e)) out of all the months the member was a member of a uniformed service before becoming entitled to retired pay for which the monthly basic pay to which the member would have been entitled had he served on active duty during those months was the highest.

(d) LIMITATION FOR ENLISTED MEMBERS RETIRING WITH LESS THAN 30 YEARS' SERVICE.—In the case of a member who is retired under section 3914 or 8914 of this title or who is transferred to the Fleet Reserve or Fleet Marine Corps Reserve under section 6330 of

this title, the member's high-period average shall be computed using only rates of basic pay applicable to months of active duty of the member as an enlisted member.

(e) Special Rules for Short-Term Disability Retirees.—

(1) Members entitled to retired pay under section 1201 or 1202.—In the case of a member who—

(A) is entitled to retired pay under section 1201 or 1202 of this title; and

(B) served on active duty—

(i) for less than 36 months, in the case of a member who is subject to this section but is not a new retirement member; or

(ii) for less than 60 months, in the case of a new retirement member,

the number of the member's countable high-pay months (notwithstanding subsection (c)(2)) is the number of months (including any fraction thereof) that the member served on active duty.

(2) Members entitled to retired pay under section 1204 or 1205.—In the case of a member who—

(A) is entitled to retired pay under section 1204 or 1205 of this title; and

(B) was a member of a uniformed service—

(i) for less than 36 months, in the case of a member who is subject to this section but is not a new retirement member; or

(ii) for less than 60 months, in the case of a new retirement member,

the number of the member's countable high-pay months (notwithstanding subsection (c)(2)) is the number of months (including any fraction thereof) that the member was such a member.

(3) Maximum number of months for new retirement members.—In the case of a new retirement member who is entitled to retired pay under chapter 61 of this title (relating to retirement or separation for physical disability) and who was a member for more than 60 months before becoming entitled to such pay, the number of countable high-pay months may not exceed 60.

(f) Special Rule for Members Retiring With Non-Regular Service.—

(1) Disability retirement.—In the case of a member of a uniformed service who is entitled to retired pay under section 1204 or 1205 of this title (relating to members on active duty for 30 days or less), the high-period average is determined as if the member served on active duty and was entitled to basic pay for the member's countable high-pay months.

(2) Chapter 67 retirement.—In the case of a person who is entitled to retired pay under section 1331 of this title (relating to retired pay for non-regular service), the person's high-period average is determined as if the person served on active duty and was entitled to basic pay for the person's countable high-pay months.

(g) Definitions.—In this section:

(1) Years of creditable service.—"Years of creditable service" means the number of years of service creditable to a

member in computing the member's retired or retainer pay (including $^1/_{12}$ of a year for each full month of service that is in addition to the number of full years of service of the member).

(2) New-retirement member.—"New-retirement member" means a member of a uniformed service who first became a member of a uniformed service on or after the date of the enactment of the Military Retirement Reform Act of 1986.

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§ 1409. Retired pay multiplier

(a) Retired Pay Multiplier for Regular-Service Nondisability Retirement.—In computing—

(1) the retired pay of a member who is a regular-service nondisability retiree; or

(2) the retainer pay of a member is transferred to the Fleet Reserve or the Fleet Marine Corps Reserve,

the retired pay multiplier or retainer pay multiplier is the percentage determined under subsection (b).

(b) Percentage.—

(1) General rule.—Subject to paragraphs (2) and (3), the percentage to be used under subsection (a) is the product (stated as a percentage) of—

(A) $2^1/_2$, and

(B) the member's years of creditable service.

(2) Reduction for retirement by new-retirement members with less than 30 years of service.—In the case of a member who first became a member of a uniformed service on or after the date of the enactment of the Military Retirement Reform Act of 1986 and who has less than 30 years of creditable service, the percentage determined under paragraph (1) shall be reduced by—

(A) 1 percentage point for each full year that the member's years of creditable service are less than 30; and

(B) $^1/_{12}$ of 1 percentage point for each month (or fractional part thereof) by which the member's years of creditable service (after counting all full years of such service) are less than a full year.

(3) 75 percent limit.—In the case of a member with more than 30 years of creditable service, the percentage to be used under section (a) is 75 percent.

(c) Definitions.—In this section:

(1) Regular-service nondisability retiree.—"Regular-service nondisability retiree" means a member of a uniformed service who is retired as a member under any provision of law other than—

(A) chapter 61 of this title (relating to retirement or separation for physical disability); or

(B) chapter 67 of this title (relating to retirement for nonregular service).

(2) Years of creditable service.—"Years of creditable service" means the number of years of service creditable to a member in computing the member's retired or retainer pay (in-

cluding 1/12 of a year for each full month of service that is in addition to the number of full years of service of the member).

§ 1410. Rules of construction

(a) Construction of "First Became a Member".—For the purpose of this chapter and other provisions of law providing for computation of retired or retainer pay of members of the uniformed services, a person shall be considered to first become a member of a uniformed service on the first date the person is enlisted, inducted, or appointed in a uniformed service.

(b) References in Tables.—Section references in tables in this chapter are to sections of this title.

§ 1411. Rounding to next lower dollar

Amounts computed under this chapter, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

CHAPTER 73—ANNUITIES BASED ON RETIRED OR RETAINER PAY

Subchapter	Sec.
I. Retired Serviceman's Family Protection Plan	1431
II. Survivor Benefit Plan	1447

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SUBCHAPTER II—SURVIVOR BENEFIT PLAN

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§ 1447. Definitions

In this subchapter:

(1) "Plan" means the Survivor Benefit Plan established by this subchapter.

(2) "Base amount" means—

(A) in the case of a person who dies after becoming entitled to retired or retainer pay *(determined without regard to any reduction under section 1409(b)(2) of this title)*, the amount of monthly retired or retainer pay to which the person—

(i) was entitled when he became eligible for that pay; or

(ii) later became entitled by being advanced on the retired list, performing active duty, or being transferred from the temporary disability retired list to the permanent disability retired list;

* * * * * * *

§ 1451. Amount of annuity

(a)(1) * * *

* * * * * * *

(h) Computation of a member's retired pay for purposes of this section shall be made without regard to any reduction under section 1409(b)(2) of this title.

§ 1452. Reduction in retired pay

(a)(1) * * *

* * * * * * *

(c) The retired pay of a person who has elected to provide an annuity to a person designated by him under section 1450(a)(4) of this title shal be reduced—

(1) in the case of a person providing a standard annuity, by 10 percent plus 5 percent for each full five years the individual designated is younger than that person; or

(2) in the case of a person providing a reserve-component annuity, by an amount prescribed under regulations of the Secretary of Defense.

However, the total reduction under clause (1) may not exceed 40 percent. The reduction in retired pay prescribed by this subsection shall continue during the lifetime of the person designated under section 1450(a)(4) of this title or until the person receiving retired or retainer pay changes his election under section 1450(f) of this title. *Computation of a member's retired pay for purposes of this subsection shall be made without regard to any reduction under section 1409(b)(2) of this title.*

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PART IV—SERVICE, SUPPLY, AND PROCUREMENT

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CHAPTER 169—MILITARY CONSTRUCTION AND MILITARY FAMILY HOUSING

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SUBCHAPTER II—MILITARY FAMILY HOUSING

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§ 2830. Occupancy of substandard family housing units

(a)(1) A member of the uniformed services with dependants may, without loss of the member's basic allowance for quarters, occupy a substandard family housing unit under the jurisdiction of the Secretary of a military department.

(2) Occupancy of a family housing unit under paragraph (1) shall be subject to a charge against the member's basic allowance for quarters in the amount of the fair rental value of the housing unit. However, such a charge may not be made in an amount in excess of 75 percent of the amount of such allowance.

(b) Subject to regulations prescribed by the Secretary of Defense, the Secretary of a military department may lease substandard family housing units to members of any of the uniformed services for occupancy by such members.

[(c) In this section, "uniformed services" means the armed forces and the commissioned corps of the Public Health Service and of the National Oceanic and Atmospheric Administration.]

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PART II—PERSONNEL

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CHAPTER 367—RETIREMENT FOR LENGTH OF SERVICE

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§ 3925. Computation of years of service: voluntary retirement; enlisted members

(a) For the purpose of determining whether an enlisted member of the Army may be retired under section 3914 or 3917 of this title, and of computing his retired pay under section 3991 of this title, his years of service are computed by adding all active service in the armed forces and service computed under section 3683 of this title.

(b) Time required to be made up under section 972 of this title may not be counted in determining years of service under subsection (a).

(c) In determining a member's years of service under subsection (a) for the purpose of computing the member's retired pay under section 3991 of this title—

(1) each full month of service that is in addition to the number of full years of service creditable to the member shall be credited as 1/12 of a year; and

(2) any remaining fractional part of a year shall be disregarded.

* * * * * * *

CHAPTER 371—COMPUTATION OF RETIRED PAY

Sec.
3991. Computation of retired pay.
3992. Recomputation of retired pay to reflect advancement on retired list.

§ 3991. Computation of retired pay

[The monthly retired pay of a person entitled thereto under this subtitle is computed according to the following table. For each case covered by a section of this title named in the column headed "For sections", retired pay is computed by taking, in order, the steps prescribed opposite it in columns 1, 2, 3, and 4, as modifed by the applicable footnotes. The amount computed, if not a multiple of $1, shall be rounded to the next lower multiple of $1. However, if a person would otherwise be entitled to retired pay computed under more than one pay formula of this table or the table in section 1401 of this title, he is entitled to be paid under the applicable formula that is most favorable to him. Section references below are to sections of this title.

Formula	For sections	Column 1 For a person who first became a member of uniformed service (as defined in section 1407(a)(2) of this title) after September 7, 1980, take the monthly retired pay base as computed under section 1407(c). For all others, take	Column 2 Multiply by	Column 3 Add	Column 4 Subtract
A	3911 3918 3920 3924	Monthly basic pay [2] of member's retired grade.[1]	2½% of years of service credited to him under section 1405 of this title.[4]		Excess over 75% of pay upon which computation is based.
B	3914	Monthly basic pay [3] to which member was entitled on day before he retired.	2½% of years of service credited to him under section 3925.[4]	10% of product of columns 1 and 2 for extraordinary heroism in line of duty.[5]	Excess over 75% of pay upon which computation is based.
C	3917	Monthly basic pay [3] to which member was entitled on day before he retired.	2½% of years of service credited to him under section 3925.[4]		Excess over 75% of pay upon which computation is based.

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[1] For the purposes of this section, determined member's retired grade as if section 3962(b) did not apply and, for an officer who has served as Chief of Staff, compute at the highest rates of basic pay applicable to him while he served in that office.

[2] Compute at rates applicable on date of retirement.

[3] Compute at rates applicable on date of retirement, or if the member has served as sergeant major of the Army, compute at the highest basic pay applicable to him while be so served, if such basic pay is greater.

[4] Before applying percentage factor, credit each full month of service that is in addition to the number of full years of service creditable to the member as one-twelfth of a year and disregard any remaining fractional part of a month.

[5] The Secretary of the Army's determination as to extraordinary heroism is conclusive for all purposes.

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(a) COMPUTATION.—

(1) IN GENERAL.—The monthly retired pay of a member entitled to such pay under this subtitle is computed according to the following table. For each case covered by a section of this title named in the column headed "For sections", retired pay is computed by taking the steps prescribed opposite it in columns 1 and 2.

		Column 1	*Column 2*
Formula	*For sections*	*Take*	*Multiply by*
A	*3911* *3918* *3920* *3924*	*Retired pay base as computed under section 1406(c) or 1407.*	*The retired pay multiplier prescribed in section 1409 for the years of service credited to him under section 1405.*
B	*3914* *3917*	*Retired pay base as computed under section 1406(c) or 1407.*	*The retired pay multiplier prescribed in section 1409 for the years of service credited to him under section 3925.*

(2) ADDITIONAL 10 PERCENT FOR CERTAIN ENLISTED MEMBERS CREDITED WITH EXTRAORDINARY HEROISM.—If a member who is retired under section 3914 of this title has been credited by the Secretary of the Army with extraordinary heroism in the line of duty, the member's retired pay shall be increased by 10 percent of the amount determined under paragraph (1) (but to not more than 75 percent of the retired pay base upon which the computation of such retired pay is based). The Secretary's determination as to extraordinary heroism is conclusive for all purposes.

(b) GENERAL RULES.—

(1) USE OF MOST FAVORABLE FORMULA.—If a person would otherwise be entitled to retired pay computed under more than one formula of the table in subsection (a) or the table in section 1401 of this title, he is entitled to be paid under the applicable formula that is most favorable to him.

(2) ROUNDING TO NEXT LOWER DOLLAR.—The amount computed under subsection (a), if not a multiple of $1, shall be rounded to the next lower multiple of $1.

(3) REFERENCES.—Section references in the table in subsection (a) are to sections of this title.

§ 3992. Recomputation of retired pay to reflect advancement on retired list

An enlisted member of the Army who is advanced on the retired list under section 3964 of this title is entitled to recompute his retired pay under formula A of the following table, and a warrant officer of the Army so advanced is entitled to recompute his retired pay under formula B of that table. The amount recomputed, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

Formula	Column 1 For a person who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) after September 7, 1980, take the monthly retired pay base as computed under section 1407(c). For all others, take	Column 2 Multiply by	Column 3 Add	Column 4 Subtract
A	Monthly basic pay or base and longevity pay, as the case may be,[1] of grade to which member is advanced on retired list.	2½% of years of service credited to him under section 3925 of this title.[2]		Excess over 75% of pay upon which computation is based.
B	Monthly basic pay or base and longevity pay, as the case may be,[1] of grade to which member is advanced on retired list.	2½% of years of service credited to him under section 1405 of this title.[2]		Excess over 75% of pay upon which computation is based.

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[1] Compute at rate applicable on date of retirement.

[2] Before applying percentage factor, credit each full month of service that is in addition to the number of full years of service creditable to the member as one-twelfth of a year and disregard any remaining fractional part of a month.

	Column 1	Column 2
Formula	Take	Multiply by
A	Retired pay base as computed under section 1406(c) or 1407 of this title.	The retired pay multiplier prescribed in section 1409 of this title. for the number of years credited to him under section 3925 of this title.[1]
B	Retired pay base as computed under section 1406(c) or 1407 of this title.	The retired pay multiplier prescribed in section 1409 of this title for the number of years credited to him under section 1405 of this title.

[1] In determining retired pay multiplier, credit each full month of service that is in addition to the number of full years of service creditable to the member as twelfth of a year and disregard any remaining fractional part of a month.

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Subtitle C—Navy and Marine Corps

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PART I—ORGANIZATION

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CHAPTER 509—OFFICE OF THE CHIEF OF NAVAL OPERATIONS

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§ 5083. Chief of Naval Operations: retirement

An officer who is retired while serving as Chief of Naval Operations, or who, after serving at least two and one-half years as Chief of Naval Operations, is retired after completion of that service while serving in a lower rank or grade, may, in the discretion of the President, be retired with the grade of admiral. [The retired pay of such an officer shall be computed at the highest rates of basic pay applicable to him while he served in that office.]

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CHAPTER 515—COMMANDANT OF THE MARINE CORPS; HEADQUATERS, MARINE CORPS

Sec.
5201. Commandant: appointment; term; emoluments.
5202. Assistant Commandant: detail; succession to duties.
5203. Director of Personnel: detail.
5204. Quartermaster General: detail.
[5205, 5206 Repealed.]

§ 5201. Commandant: appointment; term; emoluments

(a) * * *

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(c) An officer who is retired while serving as Commandant of the Marine Corps, or who, after serving at least two and one-half years as Commandant, is retired after completion of that service while serving in a lower rank or grade, may, in the discretion of the President, be retired with the grade of general. [The retired pay of such an officer shall be computed at the highest rates of basic pay applicable to him while he served in that office.]

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PART II—PERSONNEL

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CHAPTER 561—MISCELLANEOUS RIGHTS AND BENEFITS

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§ 6151. Higher retired grade and pay for members who serve satisfactorily under temporary appointments

(a) Unless otherwise entitled to a higher retired grade and subject to sections 688 and 1370 of this title, each member, other than a retired member, of the Navy or the Marine Corps shall, when retired, be advanced on the retired list to the highest officer grade in which he served satisfactorily under a temporary appointment as determined by the Secretary of the Navy.

[(b)(1) Each member, other than a former member of the Fleet Reserve or the Fleet Marine Corps Reserve, who is advanced on the retired list under this section is, unless otherwise entitled to higher retired pay, entitled to retired pay—

> [(A) in the case of a member who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before September 8, 1980, at the rate of 2½ percent of the basic pay of the grade to which advanced; or
>
> [(B) in the case of a member who first became a member of a uniform service (as defined in section 1407(a)(2) of this title) on or after September 8, 1980, at the rate of 2½ percent of the monthly retired pay base computed under section 1407(d) of this title;

multiplied by the number of years of service that may be credited to him under section 1405 of this title, but the retired pay may not be more than 75 percent of the basic pay or monthly retired pay base upon which the computation of retired pay is based.

[(2) In determining the number of years to be used as a multiplier under this subsection, each full month of service that is in addition to the number of full years of service creditable to a member is counted as one-twelfth of a year and any remaining fractional part of a month is disregarded.

[(c)(1) Each former member of the Fleet Reserve or the Fleet Marine Corps Reserve who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before September 8, 1980, who is advanced on the retired list under this section is entitled to retired pay based upon the grade to which advanced. Such retired pay shall be at the rate of 2½ percent of the basic pay of the grade to which advanced, determined by the same period of service used to determine the basic pay of the grade upon which his retainer pay is based, multiplied by the number of years of service creditable for his retainer pay at the time of retirement, but the retired pay may not be more than 75 percent of the basic pay upon which the computation of retired pay is based.

[(2) Each former member of the Fleet Reserve or the Fleet Marine Corps Reserve who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) on or after September 8, 1980, who is advanced on the retired list under this section is entitled to retired pay at the rate of 2½ percent of the monthly retired pay base computed under section 1407(d) of this title, multiplied by the number of years of service creditable for his retainer pay at the time of retirement, but the retired pay may not be more than 75 percent of the monthly retired pay base upon which the computation of retired pay is based.]

(b) Each member (other than a former member of the Fleet Reserve or the Fleet Marine Corps Reserve) who is advanced on the retired list under this section is (unless otherwise entitled to higher retired pay) entitled to retired pay determined in accordance with the following table. References in the table are to sections of this title.

Column 1 *Take*	*Column 2* *Multiply by*
Retired pay base computed under section 1406(d) or 1407.	*Retired pay multiplier prescribed under section 1409 for the years of service that may be credited to him under section 1405.*

(c) Each former member of the Fleet Reserve or the Fleet Marine Corps Reserve who is advanced on the retired list under this section is entitled to retired pay determined in accordance with the following table. References in the table are to sections of this title.

Column 1 *Take*	*Column 2* *Multiply by*
Retired pay base computed under section 1406(d) or 1407.	*Retired pay multiplier prescribed under section 1409 for the number of years of service creditable for his retainer pay at the time of retirement.*

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CHAPTER 571—VOLUNTARY RETIREMENT

Sec.
6321. Officers: 40 years.
6322. Officers: 30 years.
6323. Officers: 20 years.
6324. Officers: creditable service.
6325. Officers: retired grade and pay.
6326. Enlisted members: 30 years.
6327. Officers and enlisted members of the Naval Reserve and Marine Corps Reserve: 30 years; 20 years; retired pay.
[6328. Treatment of fractions of years of service in computing retired pay.]

6329. Officers not to be retired for misconduct.
6330. Enlisted members transfer to Fleet Reserve and Fleet Marine Corps Reserve; retainer pay.
6331. Members of the Fleet Reserve and Fleet Marine Corps Reserve: transfer to the retired list; retired pay.
6332. Conclusiveness of transfers.
[6333. Treatment of fractions of dollar amounts in computing retired and retainer pay.]
6333. Computation of retired and retainer pay.

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§ 6322. Officers: 30 years

(a) An officer of the Regular Navy or the Regular Marine Corps holding a permanent appointment in the grade of warrant officer, W-1, or above who applies for retirement after completing 30 or more years of active service may, in the discretion of the Secretary of the Navy, be retired.

(b) For the purpose of this section, an officer's years of active service are computed by adding all his active service in the armed forces.

[(c) Each officer who is retired under this section is entitled to retired pay—

[(1) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before September 8, 1980, at the rate of 75 percent of the highest basic pay of the grade in which retired; or

[(2) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) on or after September 8, 1980, at the rate of 75 percent of the monthly retired pay base computed under section 1407(d) of this title.]

§ 6323. Officers: 20 years

(a) * * *

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(e) Unless otherwise entitled to higher pay, an officer retired under this section is entitled to [retired pay—

[(1) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before September 8, 1980, at the rate of 2½ percent of the basic pay of the grade in which retired; or

[(2) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) on or after September 8, 1980, at the rate of 2½ percent of the monthly retired pay base computed under section 1407(d) of this title;

multiplied by the number of years of service that may be credited to him under section 1405 of this title, but the retired pay so computed may not be more than 75 percent of the basic pay or monthly retired pay base upon which the computation of retired pay is based.] *retired pay computed under section 6333 of this title.*

* * * * * * *

§ 6325. Officers: retired grade and pay

(a) Except as provided in subsection (b) or section 1370 of this title, each officer who is retired under section 6321 or 6322 of this title—

(1) unless otherwise entitled to a higher grade, shall be retired in the grade in which he was serving at the time of retirement; and

(2) unless otherwise entitled to higher pay, is entitled to [retired pay—

[(A) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before September 8, 1980, at the rate of 2½ percent of the basic pay of the grade in which he retired; or

[(B) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) on or after September 8, 1980, at the rate of 2½ percent of the monthly retired pay base computed under section 1407(d) of this title;

multiplied by the number of years of service that may be credited to him under section 1405 of this title, but the retired pay so computed may not be more than 75 percent of the basic pay or monthly retired pay base upon which the computation of retired pay is based] *retired pay computed under section 6333 of this title.*

(b) Each officer who is retired while serving in the grade of admiral, vice admiral, general, or lieutenant general by virtue of an appointment under section 601 of this title or who is retired while serving in a grade to which he was appointed or promoted under section 603 of this title or promoted under section 602 or 5721 of this title—

(1) unless otherwise entitled to a higher grade, shall be retired in the grade he would hold if he had not received such an appointment; and

(2) unless otherwise entitled to higher pay, is entitled to [retired pay—

[(A) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before September 8, 1980, at the rate of 2½ percent of the basic pay of the grade he would hold if he had not received such an appointment; or

[(B) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) on or after September 8, 1980, at the rate of 2½ percent of the monthly retired pay base computed under section 1407(d) of this title;

multiplied by the number of years of service that may be credited to him under section 1405 of this title, but the retired pay so computed may not be more than 75 percent of the basic pay or monthly retired pay base upon which the computation of retired pay is based] *retired pay computed under section 6333 of this title.*

(c) A warrant officer who retires under section 6321, 6322, or 6323 of this title may elect to be placed on the retired list in the highest grade and with the highest retired pay to which he is entitled under any provision of this title. [If the pay of that highest grade is less than the pay of any warrant grade satisfactorily held by him on active duty, his retired pay shall be based on the higher pay.]

§ 6326. Enlisted members: 30 years

(a) Each enlisted member of the Regular Navy or the Regular Marine Corps who applies for retirement after completing 30 or more years of active service in the armed forces shall be retired by the President.

(b) For the purpose of subsection (a), "enlisted member" includes a member of the Regular Navy or the Regular Marine Corps who holds a permanent enlisted grade and a temporary appointment in a commissioned or warrant officer grade.

(c) Each person retired under this section—

(1) unless otherwise entitled to a higher grade, shall be retired in the grade in which serving at the time of retirement; and

(2) unless otherwise entitled to higher pay, is entitled to [retired pay—

[(A) in the case of a person who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before September 8, 1980, at the rate of 75 percent of the basic pay of the pay grade in which he was serving on the day before retirement or, if he has served as master chief petty officer of the Navy or as sergeant major of the Marine Corps, 75 percent of the highest basic pay to which he was entitled while so serving, if that rate is higher; or

[(B) in the case of a person who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) on or after September 8, 1980, computed by multiplying the monthly retired pay base computed under section 1407(d) of this title by 75 percent] *retired pay computed under section 6333 of this title.*

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[§ 6328. Treatment of fractions of years of service in computing retired pay

[In determining the total number of years of service to be used as a multiplier in computing the retired pay of officers retiring under this chapter, each full month of service that is in addition to the number of full years of service creditable to an officer is counted as one-twelfth of a year and any remaining fractional part of a month is disregarded.]

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§ 6330. Enlisted members: transfer to Fleet Reserve and Fleet Marine Corps Reserve; retainer pay

(a) * * *

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(c)(1) Each member who is transferred to the Fleet Reserve or the Fleet Marine Corps Reserve under this section is entitled, when not on active duty, to [retainer pay—

[(A) in the case of a member who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before September 8, 1980, at the rate of 2½ percent of the basic pay that he received at the time of transfer or, in the case of a member who has served as master chief petty officer of the Navy or sergeant major of the Marine Corps, of the highest basic pay is higher than the basic pay received at the time of transfer; or

[(B) in the case of a member who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) on or after September 8, 1980, at the rate of 2½ percent of the monthly retainer pay base computed under section 1407(d) of this title;

multiplied by the number of years of active service in the armed forces] *retainer pay computed under section 6333 of this title.*

(2) A member may recompute his retainer pay under section 1402 or 1402a of this title, as appropriate, to reflect active duty after transfer.

(3) If the member has been credited by the Secretary of the Navy with extraordinary heroism in the line of duty, which determination by the Secretary is final and conclusive for all purposes, his retainer pay shall be increased by 10 percent.

[(4) In no case may a member's retainer pay be more than 75 percent of the basic pay or monthly retainer pay base upon which the computation of retainer pay is based.]

(d)*(1)* For the purposes of subsection (c), each full month of service that is in addition to the number of full years of service creditable to a member is counted as one-twelfth of a year and any remaining fractional part of a month is disregarded. [A completed minority enlistment is counted as four years of active service, and an enlistment terminated within three months before the end of the term of enlistment is counted as active service for the full term.]

(2) In determining a member's eligibility for transfer to the Fleet Reserve or the Fleet Marine Corps Reserve under subsection (b)—

(A) a completed minority enlistment of the member is counted as four years of active service, if creditable to the member for such purpose before December 31, 1977; and

(B) an enlistment of the member terminated within three months before the end of the term of enlistment is counted as active service for the full term, if creditable to the member for such purpose before December 31, 1977.

(3)(A) Subject to subparagraph (B), in determining a member's years of active service for the computation of retainer pay under subsection (c)—

(i) a completed minority enlistment of the member is counted as four years of active service; and

(ii) an enlistment of the member terminated within three months before the end of the term of enlistment is counted as active service for the full term.

(B) In the case of a member who is transferred to the Fleet Reserve or the Fleet Marine Corps Reserve under this section after December 30, 1977, service attributable under subparagraph (A) to time which, after December 31, 1977, is not actually served by the member may not be counted.

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[§ 6333. Treatment of fractions of dollar amounts in computing retired and retainer pay

[Retired or retainer pay computed under this chapter, if not a multiple of $1, shall be rounded to the next lower multiple of $1.]

§ 6333. Computation of retired and retainer pay

(a) The monthly retired or retainer pay of a member entitled to such pay under this chapter or under section 6383 of this title is computed in accordance with the following table.

		Column 1	*Column 2*
Formula	*For sections*	*Take*	*Multiply by*
A	*6325(a)* *6326*	*Retired pay base computed under section 1406(d) or 1407.*	*75%.*
B	*6323* *6325(b)* *6383*	*Retired pay base computed under section 1406(d) or 1407.*	*Retired pay multiplier prescribed under section 1409 for the years of service that may be credited to him under section 1405.*
C	*6330*	*Retainer pay base computed under section 1406(d) or 1407.*	*Retainer pay multiplier prescribed under section 1409 for his years of active service in the armed forces.*

(b)(1) Retired pay or retainer pay computed under this section, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

(2) References in the table in subsection (a) are to sections of this title.

CHAPTER 573—INVOLUNTARY RETIREMENT, SEPARATION, AND FURLOUGH

§ 6383. Regular Navy and Regular Marine Corps; officers designated for limited duty; retirement for length of service or failures of selection for promotion; discharge for failures of selection for promotion; reversion to prior status; retired grade; retired pay

(a) * * *

* * * * * * *

(c) Each officer retired under subsection (a) or (b)—

(1) unless otherwise entitled to a higher grade, shall be retired in the grade determined under section 1370 of this title; and

(2) is entitled to [retired pay—

[(A) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) before September 8, 1980, at the rate of 2½ percent of the basic pay to which he would be entitled if serving on active duty in the grade in which he retired; or

[(B) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) on or after September 8, 1980, at the rate of 2½ percent of the monthly retired pay base computed under section 1407(d) of this title;

multiplied by the number of years of service that may be credited to him under section 1405 of this title, but the retired pay may not be more than 75 percent of the basic pay or monthly retired pay base upon which the computation of retired pay is based] *retired pay computed under section 6333 of this title.*

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[(k) Retired pay computed under subsection (c), if not a multiple of $1, shall be rounded to the next lower multiple of $1.]

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Subtitle D—Air Force

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PART II—PERSONNEL

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CHAPTER 867—RETIREMENT FOR LENGTH OF SERVICE

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§ 8925. Computation of years of service: voluntary retirement; enlisted members

(a) For the purpose of determining whether an enlisted member of the Air Force may be retired under section 8914 or 8917 of this title, and of computing his retired pay under section 8991 of this title, his years of service are computed by adding all active service in the armed forces and service computed under section 8683 of this title.

(b) Time required to be made up under section 972 of this title may not be counted in computing years of service under subsection (a).

(c) In determining a member's years of service under subsection (a) for the purpose of computing the member's retired pay under section 8991 of this title—

(1) each full month of service that is in addition to the number of full years of service creditable to the member shall be credited as 1/12 of a year; and

(2) any remaining fractional part of a year shall be disregarded.

* * * * * * *

CHAPTER 871—COMPUTATION OF RETIRED PAY

Sec.
8991. Computation of retired pay.
8992. Recomputation of retired pay to reflect advancement on retired list.

§ 8991. Computation of retired pay

[The monthly retired pay of a person entitled thereto under this subtitle is computed according to the following table. For each case covered by a section of this title named in the column headed "For sections", retired pay is computed by taking, in order, the steps prescribed opposite it in columns 1, 2, 3, and 4, as modified by the applicable footnotes. The amount computed, if not a multiple of $1, shall be rounded to the next lower multiple of $1. However, if a person would otherwise be entitled to retired pay computed under more than one pay formula of this table or the table in section 1401 of this title, he is entitled to be paid under the applicable formula that is most favorable to him. Section references below are to sections of this title.

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Formula	For sections	Column 1	Column 2	Column 3	Column 4
		For a person who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) after September 7, 1980, take the monthly retired pay base as computed under section 1407(e). For all others, take	Multiply by	Add	Subtract
A	8911 8918 8920 8924	Monthly basic pay [2] of member's retired grade.[1]	2½% of years of service credited to him under section 1405 of this title [3]		Excess over 75% of pay upon which computation is based.
B	8914	Monthly basic pay [3] to which member was entitled on day before he retired	2½% of years of service credited to him under section 8925 [4]	10% of product of columns 1 and 2 for extraordinary heroism in line of duty [5]	Excess over 75% of pay upon which computation is based.
C	8917	Monthly basic pay [3] to which member was entitled on day before he retired	2½% of years of service credited to him under section 8925 [4]		Excess over 75% of pay upon which computation is based.

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[1] For the purposes of this section, determine member's retired grade as if section 8962(b) did not apply and, for an officer who has served as Chief of Staff, compute at the highest rates of basic pay applicable to him while he served in that office.

[2] Compute at rates applicable on date of retirement.

[3] Compute at rates applicable on date of retirement, or if the member has served as chief master sergeant of the Air Force, compute at the highest basic pay applicable to him while he so served, if such basic pay is greater.

[4] Before applying percentage factor, credit each full month of service that is in addition to the number of full years of service creditable to the member as one twelfth of a year and disregard any remaining fractional part of a month.

[5] The Secretary of the Air Force's determination as to extraordinary heroism is conclusive for all purposes.

(a) COMPUTATION.—

(1) IN GENERAL.—The monthly retired pay of a member entitled to such pay under this subtitle is computed according to the following table. For each case covered by a section of this title named in the column headed 'For sections', retired pay is computed by taking the steps prescribed opposite it in columns 1 and 2.

		Column 1	*Column 2*
Formula	*For sections*	*Take*	*Multiply by*
A	*8911* *8918* *8920* *8924*	*Retired pay base as computed under section 1406(e) or 1407.*	*The retired pay multiplier prescribed in section 1409 for the years of service credited to him under section 1405.*
B	*8914* *8917*	*Retired pay base as computed under section 1406(e) or 1407.*	*The retired pay multiplier prescribed in section 1409 for the years of service credited to him under section 8925.*

(2) ADDITIONAL 10 PERCENT FOR CERTAIN ENLISTED MEMBERS CREDITED WITH EXTRAORDINARY HEROISM.—If a member who is retired under section 8914 of this title has been credited by the Secretary of the Air Force with extraordinary heroism in the line of duty, the member's retired pay shall be increased by 10 percent of the amount determined under paragraph (1) (but to not more than 75 percent of the retired pay base upon which the computation of such retired pay is based). The Secretary's determination as to extraordinary heroism is conclusive for all purposes.

(b) GENERAL RULES.—

(1) USE OF MOST FAVORABLE FORMULA.—If a person would otherwise be entitled to retired pay computed under more than one formula of the table in subsection (a) or the table in section 1401 of this title, he is entitled to be paid under the applicable formula that is most favorable to him.

(2) ROUNDING TO NEXT LOWER DOLLAR.—The amount computed under subsection (a), if not a multiple of $1, shall be rounded to the next lower multiple of $1.

(3) REFERENCES.—Section references in the table in subsection (a) are to sections of this title.

§ 8992. Recomputation of retired pay to reflect advancement on retired list

An enlisted member of the Air Force who is advanced on the retired list under section 8964 of this title is entitled to recompute his retired pay under formula A of the following table, and a warrant officer of the Air Force so advanced is entitled to recompute his retired pay under formula B of that table. The amount recomputed, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

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Formula	Column 1 For a person who first became a member of a uniformed service (as defined in section 1407(a)(2) of this title) after September 7, 1980, take the monthly retired pay base as computed under section 1407(c). For all others, take	Column 2 Multiply by	Column 3 Add	Column 4 Subtract
A	Monthly basic pay or base and longevity pay, as the case may be,[1] of grade to which member is advanced on retired list.	2½% of years of service credited to him under section 8925 of this title.[2]		Excess over 75% of pay upon which computation is based.
B	Monthly basic pay or base and longevity pay, as the case may be,[1] of grade to which member is advanced on retired list.	2½% of years of service credited to him under section 1405 of this title.[2]		Excess over 75% of pay upon which computation is based.

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[1] Compute at rate applicable on date of retirement.

[2] Before applying percentage factor, credit each full month of service that is in addition to the number of full years of service creditable to the member as one-twelfth of a year and disregard any remaining fractional part of a month.

Formula	Column 1 Take	Column 2 Multiply By
A	Retired pay base as computed under section 1406(e) or 1407 of this title.	The retired pay multiplier prescribed in section 1409 of this title for the number of years credited to him under section 8925 of this title.[1]
B	Retired pay base as computed under section 1406(e) or 1407 of this title.	The retired pay multiplier prescribed in section 1409 of this title for the number of years credited to him under section 1405 of this title.

[1] In determining retired pay multiplier, credit each full month of service is in addition to the number of full years of service creditable to the member as 1/12 of a year and disregard any remaining fractional part of a month.

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TITLE 14, UNITED STATES CODE

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CHAPTER 3—COMPOSITION AND ORGANIZATION

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§ 46. Retirement of Commandant

(a) Any Commandant who is not reappointed shall, at the expiration of his term, be retired with the grade of admiral [and retired pay computed at the highest rates of basic pay applicable to him while he served as Commandant].

(b) A Commandant who is retired for physical disability shall be placed on the retired list with the grade of admiral [and retired pay computed at the highest rates of basic pay applicable to him while he served as Commandant].

(c) An officer who is retired prior to the expiration of his term, while serving as Commandant, may, in the discretion of the President, be retired with the grade of admiral [and retired pay computed at the highest rates of basic pay applicable to him while he served as Commandant].

§ 47. Vice Commandant; assignment; retirement

(a) The President may appoint, by and with the advice and consent of the Senate, one Vice Commandant who shall rank next after the Commandant, shall perform such duties as the Commandant may prescribe and shall act as Commandant during the absence or disability of the Commandant or in the event that there is a vacancy in the office of Commandant. The Vice Commandant shall be selected from the officers on the active duty promotion list serving above the grade of captain. The Commandant shall make recommendation for such appointment. The Vice Commandant shall, while so serving, have the grade of vice admiral with pay and allowances of that grade. The appointment of a Vice Commandant shall be effective on the date the officer assumes such duty, and shall terminate on the date he is detached from such duty.

(b) A Vice Commandant, while so serving, who is retired for physical disability shall be placed on the retired list with the grade [and retired pay] of vice admiral.

(c) An officer who is retired while serving as Vice Commandant, or who, after serving at least two and one-half years as Vice Commandant, is retired after completion of that service while serving in a lower rank or grade, may, in the discretion of the President, be retired with the grade [and retired pay] of vice admiral.

(d) An officer who, after serving less than two and one-half years as Vice Commandant, is retired after completion of that service while serving in a lower rank or grade, shall be retired in his permanent grade [and with the retired pay of that grade].

* * * * * * *

§ 51. Retirement

(a) An officer who, while serving as Commander, Atlantic Area, or Commander, Pacific Area, is retired for physical disability shall be placed on the retired list with the grade [and retired pay] of vice admiral.

(b) An officer who is retired while serving as Commander, Atlantic Area, or Commander, Pacific Area, or who, after serving at least two and one-half years in the grade of vice admiral, is retired while serving in a lower grade, may in the discretion of the President, be retired with the grade [and retired pay] of vice admiral.

(c) An officer who, after serving less than two and one-half years in the grade of vice admiral, is retired while serving in a lower grade, shall be retired in his permanent grade [and with the retired pay of that grade].

CHAPTER 11—PERSONNEL

* * * * * * *

§ 288. Regular captains; retirement

(a) Each officer of the Regular Coast Guard serving in the grade of captain whose name is not carried on an approved list of officers selected for promotion to the grade of commodore shall, unless retired under some other provision of law, be retired on June 30 of the promotion year in which he, or any captain junior to him on the active duty promotion list who has not lost numbers or precedence, completes thirty years of active commissioned service in the Coast Guard. An officer advanced in precedence on the active duty promotion list because of his promotion resulting from selection for promotion from below the zone is not subject to involuntary retirement under this section earlier than if he had not been selected from below the zone.

(b) [Except as provided in section 423(b) of this title, the retired pay] *Retired pay computed under section 423(a) of this title* of an officer retired under this section shall not be less than 50 percent of the basic pay upon which the computation of his retired pay is based.

* * * * * * *

§ 291. Voluntary retirement after twenty years service

Any regular commissioned officer who has completed twenty years' active service in the Coast Guard, Navy, Army, Air Force, or Marine Corps, or the Reserve components thereof, including active duty for training, at least ten years of which shall have been active commissioned service, may, upon his own application, in the discretion of the President, be retired from active service[, with retired pay of the grade with which retired].

§ 292. Voluntary retirement after thirty years' service

Any regular commissioned officer who has completed thirty years' service may, upon his own application, in the discretion of the Secretary, be retired from active service[, with retired pay of the grade with which retired].

§ 293. Compulsory retirement at age of sixty-two

Any regular commissioned officer, except a commissioned warrant officer, who has reached the age of sixty-two shall be retired from active service[, with retired pay of the grade with which retired].

* * * * * * *

§ 327. Officers considered for removal; retirement or discharge; severance benefits

(a) * * *

* * * * * * *

(b) Each officer removed from active duty under section 326 of this title shall—

(1) if on the date of removal the officer is eligible for voluntary retirement under any law, be retired in the grade[, and with the pay] for which he would be eligible if retired at his request; or

* * * * * * *

§ 334. Grade on retirement

(a) Any commissioned officer, other than a commissioned warrant officer, who is retired under any provision of this title, shall be retired from active service with the highest grade held by him for not less than six months while on active duty in which, as determined by the Secretary, his performance of duty was satisfactory[, with retired pay of the grade with which retired].

(b) Any warrant officer who is retired under any provision of section 564, 1263, 1293, or 1305 of title 10, shall be retired from active service with the highest commissioned grade above chief warrant officer, W-4, held by him for not less than six months on active duty in which, as determined by the Secretary, his performance of duty was satisfactory[, with retired pay of the grade with which retired. However, when the rate of pay of such highest grade is less than the pay of the warrant grade with which the officer would otherwise be retired under section 1371 of title 10, the retired pay shall be based on the higher rate of pay].

* * * * * * *

ENLISTED MEMBERS

* * * * * * *

§ 353. Compulsory retirement at age of sixty-two

Any enlisted member who has reached the age of sixty-two shall be retired from active service[, with retired pay of the grade or rating with which retired].

§ 354. Voluntary retirement after thirty years' service

Any enlisted member who has completed thirty years' service may, upon his own application, in the discretion of the Commandant, be retired from active service[, with retired pay of the grade or rating with which retired].

§ 355. Voluntary retirement after twenty years' service

Any enlisted member who has completed twenty years' service may, upon his own application, in the discretion of the Commandant, be retired from active service[, with retired pay of the grade or rating with which retired].

§ 357. Enlisted Personnel Board

(a) The Commandant shall assemble annually a Coast Guard Enlisted Personnel Board, of not less than three commissioned officers on the active list, who shall recommend for retirement such enlisted members who have twenty years of service, as the Board determines, in its discretion, should be retired from active service. The recommendations of the Board shall be transmitted to the Commandant for final action. If the Commandant approves the recommendations of the Board, the enlisted members concerned shall be notified thereof in writing, and any enlisted member who, within thirty days after receipt of such notification, files with the Commandant a written protest of the action taken by the Board in his case, shall not be retired involuntarily under this section unless a subsequent annual Board again determines, in its discretion, and recommends that such enlisted member shall be retired, in which case such enlisted member may, upon approval by the Commandant, be retired from active service. At the expiration of thirty days after receipt by an enlisted member of notice as aforesaid, in the event that no such protest is filed by him within the period prescribed, such enlisted member may, upon approval by the Commandant, be retired from active service. If the Commandant disapproves any recommendation of the Board the enlisted member concerned shall retain his status to the same extent as if his case had not been considered.

(b) Any enlisted member who has completed twenty years' service and who has been retired from active duty by the Commandant pursuant to the action of an Enlisted Personnel Board shall receive [the retired pay of the grade or rating with which retired] *retired pay.*

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(c) Any enlisted member retired by reason of twenty years' service, whether voluntarily or involuntarily, who has been cited for extraordinary heroism in line of duty, as determined by the Secretary, whose determination shall be final and conclusive, shall be entitled to have his retired pay increased [by an amount equal to 10 percent of the active-duty pay and permanent additions thereto of the grade or rating with which retired.] *by an amount equal to 10 percent of—*

(1) the active-duty pay and permanent additions thereto of the grade or rating with which retired, in the case of a member whose retired pay is computed under section 423(a) of this title; or

(2) the member's retired pay base under section 1407(f) of title 10, in the case of a member whose retired pay is computed under section 423(b) of this title.

* * * * * * *

§ 362. Retirement in cases where higher grade or rating has been held

Any enlisted member who is retired under any provision of section 353, 354, 355, or 357 of this title shall be retired from active service with highest grade or rating held by him while on active duty in which, as determined by the Secretary, his performance of duty was satisfactory, but not lower than his permanent grade or rating[, with retired pay of the grade or rating with which retired].

* * * * * * *

GENERAL PROVISIONS

§ 421. Retirement

(a) Every commissioned officer, warrant officer, or enlisted member who is retired under any provisions of this title shall be retired with the permanent grade or [rating] *rate* held at the time of retirement, unless entitled to retire with a higher grade or [rating] *rate* under any provision of this title or any other law.

(b) Where an officer is entitled, under any provision of law, to retire with one grade higher than the grade in which serving at the time of retirement, the next higher grade in the case of captain shall be rear admiral (lower half), and the next higher grade in the case of commissioned warrant officer shall be lieutenant (junior grade).

§ 422. Status of recalled personnel

All retired personnel when recalled to active duty shall serve in the grade or [rating] *rate* in which they were serving at the time of retirement.

§ 423. Computation of retired pay

[(a) Except as provided in subsection (b), the retired pay of a grade or rating shall be computed at the rate of 2½ percent of the sum of the basic pay of that grade or rating, and all permanent additions thereto including longevity credit of which the officer or enlisted member concerned was entitled at the time of retirement, multiplied by the number of years of service that may be credited to him under section 1405 of title 10. In the case of an enlisted member who served as the master chief petty officer of the Coast Guard, his retired pay shall be computed at the highest basic pay applicable to him while he so served, if that basic pay is greater than the basic pay of the grade or rating to which he was otherwise entitled at the time of retirement. In the case of an officer whose retired pay is computed on the pay of a grade for which basic pay is not based upon years of service the retired pay shall be 2½ percent of his basic pay in the grade in which serving at the time of retirement multiplied by the number of years of service for which he would be entitled to credit in the computation of pay on the active list had he been serving in the grade of captain at the time of his retirement. In computing the number of years of service by which the rate of 2½ percent is multiplied, each full month of service that is in addition to the number of full years of service creditable to a member is counted as one-twelfth of a year and any remaining fractional part of a month is disregarded. Retired pay, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

⟦(b) Notwithstanding any other provision of this title, the retired pay of each officer or enlisted member of the Coast Guard who first became a member of a uniformed service (as defined in section 1407(a)(2) of title 10) after September 7, 1980, is computed at the rate of 2½ percent of the monthly retired pay base (computed under section 1407(f) of title 10) multiplied by the number of years of service that may be credited to him under section 1405 of title 10, but the retired pay so computed may not be more than 75 percent of such monthly retired pay base.⟧

(a)(1) The retired pay of a member who first became a member of a uniformed service (as defined in section 101 of title 10) before September 8, 1980, is determined by multiplying—

(A) the sum of—

(i) the basic pay of the member's retired grade or rate, and

(ii) all permanent additions thereto including longevity credit to which the member was entitled at the time of retirement; and

(B) the retired pay multiplier determined under section 1409 of title 10 for the number of years of service that may be credited to the member under section 1405 of such title.

(2) In the case of an officer who served as Commandant of the Coast Guard, retired pay under paragraph (1) shall be computed at the highest rate of basic pay applicable to the officer while so serving.

(3) In the case of an enlisted member who served as the master chief petty officer of the Coast Guard, retired pay under paragraph (1) shall be computed at the highest rate of basic pay to which the member was entitled while so serving, if that basic pay is greater than the basic pay of the grade or rate to which the member is otherwise entitled at the time of retirement.

(4) In the case of an officer whose retired pay is computed on the pay of a grade for which basic pay is not based upon years of serv-

ice, retired pay under paragraph (1) shall be computed on the basis of the number of years of service for which the officer would be entitled to credit in the computation of pay on the active list had the officer been serving in the grade of captain at the time of retirement.

(b) The retired pay of a member who first became a member of a uniformed service (as defined in section 101 of title 10) on or after September 8, 1980, is determined by multiplying—

(1) the retired pay base determined under section 1407(f) of title 10; and

(2) the retired pay multiplier determined under section 1409 of title 10 for the number of years of service that may be credited to the member under section 1405 of such title.

(c)(1) (In computing for the purpose of subsection (a) or (b) the number of years of service that may be credited to a member under section 1405 of title 10—

(A) each full month of service that is in addition to the number of full years of service creditable to the member shall be counted as 1/12 of a year; and

(B) any remaining fractional part of a month shall be disregarded.

(2) Retired pay computed under this section, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

§ 424. Limitations on retirement and retired pay

[The provisions of any section of this title shall not be construed so as to prevent any officer or enlisted member from being placed on the retired list with the highest grade or rating and the highest retired pay to which such officer or enlisted member may be entitled under the provisions of any other section of this title or under the provisions of any other law. In no case shall the retired pay of an officer or enlisted member exceed 75 percent of the sum of the active-duty pay and all permanent additions thereto, including longevity credit to which the officer or enlisted member concerned is entitled, of the grade or rating on which his pay is computed.]

(a) The provisions of any section of this title shall not be construed so as to prevent any member from being placed on the retired list with the highest grade or rate and the highest retired pay to which the member may be entitled under the provisions of any other section of this title or under any other law.

(b) In no case may the retired pay of a member exceed 75 percent of (1) the sum of the active-duty pay and all permanent additions thereto (including longevity credit to which the member is entitled) of the grade or rate on which the member's pay is computed, or (2) the retired pay base determined under section 1407(f) of title 10, as appropriate.

* * * * * * *

SECTION 16 OF THE COAST AND GEODETIC SURVEY COMMISSIONED OFFICERS' ACT OF 1948

[SEC. 16. (a) Each commissioned officer on the retired list shall receive retired pay—

[(1) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of title 10, United States Code) before the date of the enactment of the Department of Defense Authorization Act, 1981, at the rate of 2½ percent of the basic pay of the rank with which retired; or

[(2) in the case of an officer who first became a member of a uniformed service (as defined in section 1407(a)(2) of title 10, United States Code) on or after the date of the enactment of the Department of Defense Authorization Act, 1981, at the rate of 2½ percent of the monthly retired pay base computed under section 1407(g) of title 10, United States Code;

multiplied by the number of years of service that may be credited to him under section 1405 of title 10, United States Code, as if his service were service as a member of the Armed Forces, but the retired pay so computed may not exceed 75 percent of the basic pay of the rank with which retired or 75 percent of the monthly retired pay base, as the case may be. Retired pay, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

[(b) In computing the number of years of service of an officer for the purposes of subsection (a), each full month of service that is in addition to the number of full years of service creditable to a member is counted as one-twelfth of a year and any remaining fractional part of a month is disregarded.]

SEC. 16. (a) Each commissioned officer on the retired list who first became a member of a uniformed service (as defined in section 101 of title 10, United States Code) before the date of the enactment of the Military Retirement Reform Act of 1986 shall receive retired pay at the rate determined by multiplying—

(1) the retired pay base determined under section 1407(g) of title 10, United States Code; and

(2) 2½ percent of the number of years of service that may be credited to the officer under section 1405 of such title as if the officer's service were service as a member of the Armed Forces.

The retired pay so computed may not exceed 75 percent of the retired pay base.

(b) Each commissioned officer on the retired list who first became a member of a uniformed service (as defined in section 101 of title 10, United States Code) on or after the date of the enactment of the Military Retirement Reform Act of 1986 shall receive retired pay at the rate determined by multiplying—

(1) the retired pay base determined under section 1407(g) of title 10, United States Code; and

(2) the retired pay multiplier determined under section 1409 of such title for the number of years of service that may be credited to the officer under section 1405 of such title as if the officer's service were service as a member of the Armed Forces.

(c)(1) In computing the number of years of service of an officer for the purposes of subsection (a)—

(A) each full month of service that is in addition to the number of full years of service creditable to the officer shall be credited as $\frac{1}{12}$ of a year; and

(B) any remaining fractional part of a month shall be disregarded.

(2) Retired pay computed under this section, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

PUBLIC HEALTH SERVICE ACT

* * * * * * *

TITLE II—ADMINISTRATION

* * * * * * *

PROMOTIONS AND SEPARATION OF COMMISSIONED OFFICERS IN THE REGULAR CORPS

SEC. 210. (a) * * *

* * * * * * *

(g) If, for reasons other than physical disability, an officer of the Regular Corps in the warrant officer (W–1) grade or junior assistant grade is found pursuant to subsection (c) not to be qualified for promotion he shall be separated from the Service. If for reasons other than physical disability, an officer of the Regular Corps in the chief warrant officer (W–2), chief warrant officer (W–3), assistant, senior assistant, or full grade, after having been twice examined for promotion (other than promotion to a restricted grade), fails to be promoted—

(1) if in chief warrant officer (W–2) or assistant grade he shall be separated from the Service and paid six months' basic pay and allowances;

(2) if in chief warrant officer (W–3) or senior assistant grade he shall be separated from the Service and paid one year's basic pay and allowances;

(3) if in the full grade he shall be considered as not in line for promotion and shall, at such time thereafter as the Surgeon General may determine, be retired from the Service with retired pay (unless he is entitled to a greater amount by reason of another provision of law)—

[(A) in the case of an officer who first became a member of a uniformed service before the date of the enactment of the Department of Defense Authorization Act, 1981, at the rate of 2½ per centum of basic pay of the permanent grade held by him at the time of retirement for each year, not in excess of thirty, of his active commissioned service in the Service; or

[(B) in the case of an officer who first became a member of a uniformed service on or after the date of the enactment of the Department of Defense Authorization Act, 1981, 2½ per centum of the monthly retired pay base computed under section 1407(h) of title 10, United States Code, for each year, not in excess of thirty, of his active commissioned service in the Service.]

(A) in the case of an officer who first became a member of a uniformed service before the date of the enactment of the Military Retirement Reform Act of 1986, at the rate of 2½ percent of the retired pay base determined under section

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1407(h) of title 10, United States Code, for each year, not in excess of 30, of his active commissioned service in the Service; or

(B) in the case of an officer who first became a member of a uniformed service before the date of the enactment of the Military Retirement Reform Act of 1986, at the rate determined by multiplying—

(i) the retired pay base determined under section 1407(h) of title 10, United States Code; and

(ii) the retired pay multiplier determined under section 1409 of such title for the number of years of his active commissioned service in the Service.

* * * * * * *

SEC. 211. (a)(1)(A) A commissioned officer of the Service shall, if he applies for retirement, be retired on or after the first day of the month following the month in which he attains the age of sixty-four years. This paragraph does not permit or require the involuntary retirement of any individual because of the age of the individual.

(2) A commissioned officer of the Service may be retired by the Secretary, and shall be retired if he applies for retirement, on the first day of any month after completion of thirty years of active service.

(3) Any commissioned officer of the Service who has had less than thirty years of active service may be retired by the Secretary, with or without application by the officer, on the first day of any month after completion of twenty or more years of active service of which not less than ten are years of active commissioned service in any of the uniformed services.

(4) Except as provided in [paragraph (6)] *paragraphs (6) and (7),* a commissioned officer retired pursuant to paragraph (1), (2), or (3) who was (in the case of an officer in the Reserve Corps) on active duty with the Service on the day preceding such retirement shall be entitled to receive retired pay at the rate of 2½ per centum of the basic pay of the highest grade held by him as such officer and in which, in the case of a temporary promotion to such grade, he has performed active duty for not less than six months, (A) for each year of active service, or (B) if it results in higher retired pay, for each of the following years:

(i) his years of active service (determined without regard to subsection (d)) as a member of a uniformed service; plus

(ii) in the case of a medical or dental office, four years and, in the case of a medical officer, who has completed one year of medical internship or the equivalent thereof, one additional year, the four years and the one year to be reduced by the period of active service performed during such officer's attendance at medical school or dental school or during his medical internship; plus

(iii) the number of years of service with which he was entitled to be credited for purposes of basic pay on May 31, 1958, or (if higher) on any date prior thereto, reduced by any such year included under clause (i) and further reduced by any such year with which he was entitled to be credited under paragraphs (7) and (8) of section 205(a) of title 37, United States Code, on any date before June 1, 1958;

except that (C) in the case of any officer whose retired pay, so computed, is less than 50 per centum of such basic pay, who retires pursuant of paragraph (1) of this subsection, who has not less than twelve whole years of active service (computed without the application of subsection (e)), and who does not use, for purposes of a retirement annuity under the Civil Service Retirement Act, any service which is also creditable in computing his retired pay from the Service, it shall, instead, be 50 per centum of such pay, and (D) the retired pay of an officer shall in no case be more than 75 per centum of such basic pay.

(5) With the approval of the President, a commissioned officer whose service as Surgeon General, Deputy Surgeon General, or Assistant Surgeon General has totaled four years or more and who had had not less than twenty-five years of active service in the Service may retire voluntarily at any time; and except as provided in [paragraph (6)] *paragraphs (6) and (7),* his retired pay shall be at the rate of 75 percent of the base pay of the highest grade held by him as such officer.

(6) In computing retired pay under paragraph (4) or (5) in the case of any commissioned officer who first became a member of a uniformed service [on or after the date of the enactment of the Department of Defense Authorization Act, 1981,] *during the period beginning on September 8, 1980, and ending on the date of the enactment of the Military Retirement Reform Act of 1986* the monthly retired pay base computed under section 1407(h) of title 10, United States Code, shall be used in lieu of using the basic pay of the highest grade held by him as such officer.

(7) The retired pay of a commissioned officer retired under this subsection who first became a member of a uniformed service on or after the date of the enactment of the Military Retirement Reform Act of 1986 is determined by multiplying—

(A) the retired pay base determined under section 1407(h) of title 10, United States Code; and

(B) the retired pay multiplier determined under section 1409 of such title for the number of years of service credited to the officer under paragraph (4).

[(7)] *(8)* Retired pay computed under section 210(g)(3) or under paragraph [(4) or (5)] *(4), (5), or (7)* of this subsection, if not a multiple of $1, shall be rounded to the next lower multiple of $1.

* * * * * * *

DEPARTMENT OF DEFENSE APPROPRIATIONS ACT, 1985

* * * * * * *

[SEC. 8039. (a) During the current fiscal year and hereafter, none of the assets of the Department of Defense Military Retirement Fund shall be available to pay the retainer pay of any enlisted member of the Regular Navy, the Naval Reserve, the Regular Marine Corps, or the Marine Corps Reserve who is transferred to the Fleet Reserve or the Fleet Marine Corps Reserve under section 6330 of title 10, United States Code, on or after December 31, 1977, if the provisions of section 6330(d) of title 10, are utilized in determining such member's eligibility for retirement under section 6330(b) of the title 10: *Provided*, That notwithstanding the foregoing, time creditable as active service for a completed minority enlistment, and an enlistment terminated within three months before the end of the term of enlistment under section 6330(d) of title 10, prior to December 31, 1977, may be utilized in determining eligibility for retirement: *Provided further*, That notwithstanding the foregoing, time may be credited as active service in determining a member's eligibility for retirement under section 6330(b) of title 10 pursuant to the provisions of the first sentence of section 6330(d) of title 10 for those members who had formally requested transfer to the Fleet Reserve or the Fleet Marine Corps Reserve on or before October 1, 1977.

[(b) During the current fiscal year and hereafter, none of the assets of the Department of Defense Military Retirement Fund shall be available to pay that portion of the retainer pay of any enlisted member of the Regular Navy, the Naval Reserve, the Regular Marine Corps, or the Marine Corps Reserve who is transferred to the Fleet Reserve or the Fleet Marine Corps Reserve under section 6330 of title 10, United States Code, on or after December 31, 1977, which is attributable under the second sentence of section 6330(d) of title 10 to time which, after December 31, 1977, is not actually served by such member.**]**

* * * * * * *

[SEC. 8054. During the current fiscal year and hereafter, none of the assets of the Department of Defense Military Retirement Fund shall be available to pay the retired pay or retainer pay of a member of the Armed Forces for any month who, on or after January 1, 1982, becomes entitled to retired or retainer pay, in an amount that is greater than the amount otherwise determined to be payable after such reductions as may be necessary to reflect adjusting the computation of retired pay or retainer pay that includes credit for a part of a year of service to permit credit for a part of a year of service only for such month or months actually served: *Provided*, That the foregoing limitation shall not apply to any member who before January 1, 1982: (a) applies for retirement or transfer to the Fleet Reserve or Fleet Marine Corps Reserve; (b) is being processed for retirement under the provisions of chapter 61 of title 10 or who is on the temporary disability retired list and thereafter retired under the provisions of sections 1210 (c) or (d) of title 10; or (c) is retired or in an inactive status and would be eligible for retired pay under the provisions of chapter 67 of title 10, but for the fact that the person is under sixty years of age.**]**

* * * * * * *

Section 666 of the Department of Defense Authorization Act, 1986

[SEC. 666. LIMITATION ON AMOUNTS AVAILABLE FOR OBLIGATION FOR BASIC PAY AND FOR RETIRED PAY ACCRUAL CHARGE.

[From amounts appropriated or otherwise available to the Department of Defense for military personnel accounts for fiscal year 1986, the total amount obligated from each such account for military basic pay and payments into the Department of Defense Military Retirement Fund pursuant to section 1466(a) of title 10, United States Code, may not exceed the following:

[(1) For the Department of the Army—

[(A) for payments from the appropriation account "Military Personnel, Army", $15,595,800,000;

[(B) for payments from the appropriation account "Reserve Personnel, Army", $1,595,500,000; and

[(C) for payments from the appropriation account "National Guard Personnel, Army", $2,503,600,000.

[(2) For the Department of the Navy—

[(A) for payments from the appropriation account "Military Personnel, Navy", $11,689,900,000;

[(B) for payments from the appropriation account "Military Personnel, Marine Corps", $3,659,600,000;

[(C) for payments from the appropriation account "Reserve Personnel, Navy", $939,300,000; and

[(D) for payments from the appropriation account "Reserve Personnel, Marine Corps", $202,200,000.

[(3) For the Department of the Air Force—

[(A) for payments from the appropriation account "Military Personnel, Air Force", $13,533,500,000;

[(B) for payments from the appropriation account "Reserve Personnel, Air Force", $437,300,000; and

[(C) for payments from the appropriation account "National Guard Personnel, Air Force", $754,500,000.]

SUMMARY

Purpose

The purpose of H.R. 4420 is to revise the uniformed services nondisability retirement system for individuals who become members of a uniformed service for the first time on or after the date of enactment. The bill, also, would provide authority to the Department of Defense to obligate and expend certain appropriations contained in the fiscal year 1986 Defense Appropriations Act (Public Law 99-190) and restrict the authority to obligate other such appropriations.

Fiscal Data

The Congressional Budget Office estimates that enactment of the changes to the uniformed services retirement system would reduce outlays from the National Defense Function (050) by $1.3 billion in fiscal year 1986 and by $186 million in fiscal year 1987. The reduction would increase to $1.5 billion by 1991. Eventually, outlays would be reduced by slightly over $3 billion per year.

Because the actual payments of retired pay to individuals would not be affected by the changes proposed until those individuals who first become members of a uniformed service on or after the date of enactment retire, the legislation would have no immediate impact on outlays from the Federal budget. Eventually, however, outlays from the Federal budget would be reduced by over $3 billion per year as the result of enactment of this legislation. The committee concurs with the estimate of the Congressional Budget Office.

With regard to the authority to obligate and expend certain appropriations, the committee believes that its recommendations would permit $2.3 billion of the total $5.1 billion of unauthorized appropriations (after reductions for the March sequester) to be obligated and expended and would prohibit $2.8 billion from being obligated. The Congressional Budget Office estimates that prohibiting $2.8 billion from being obligated would reduce outlays by $624 million in fiscal year 1986, $854 million in fiscal year 1987, decreasing to $161 million by fiscal year 1990.

DEPARTMENTAL POSITION

The Administration opposes any change to the military retirement system.

COMMITTEE POSITION

The Committee on Armed Services on March 20, 1986, a quorum being present agreed to report favorably H.R. 4420, as amended, by a voice vote.

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